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What makes a successful SME in a rural location?

Thesis submitted in accordance with the requirements of the University of Liverpool for the degree of Doctor in Philosophy by

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Declaration

This thesis is submitted to the University of Liverpool in support of my fulfilment of the requirements of the degree of Doctor of Philosophy. This thesis has been the result of one's own work. No quantity of this thesis has been presented, nor is currently being presented, either wholly or in part for any other degrees or other qualifications. The sources from which material is drawn are highlighted and identified within.

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Abstract

The study seeks to examine the different elements that contribute to the success of rural small and medium sized enterprises (SMEs) with an emphasis on firms in the North West of England. There has been growing literature to highlight the importance that SMEs have on the economy (BIS, 2015; Glover, 2012) alongside government initiatives to promote the expansion of rural firms (Love and Roper, 2015; Lord Young, 2013). The ability for SMEs to drive the economy and contribute to wealth creation is one of the many reasons why there has been increasing focus in the area of entrepreneurship and small business management.

This research intends to explore and uncover the key issues and elements that enable and affect success in rural SMEs. Examining current literature around SME success revealed a number of factors that were prevalent such as firm growth, longevity, size and innovation. In addition to this, the position of the entrepreneur and their ability to affect success has also been examined. These considerations were incorporated into a conceptual framework which aided in the development of the data collection instrument.

The study applied a quantitative methodological approach utilising structured questionnaires in the data collection process. An accurate sampling frame of rural SMEs in the North West of England was drawn from the FAME database, where random sampling methods were then applied. Analysis of perceptual data revealed that the issues of growth, longevity, innovation and the entrepreneur are key factors that affect rural SME success.

Ultimately, the study contributes to current knowledge by indicating vital areas for consideration in drive towards rural SME success, suggesting that focus should be placed upon SME size, longevity and innovation. Certain characteristics of the entrepreneur such as being from the local area and having parents that had previously owned a business were also found to be linked to rural SME success. Similarly, the research also suggests that financial measures of success should not be considered in singularity but rather in tandem with the direction of the firm.

These conclusions provide some vital areas of consideration for rural SMEs as well as signposts where government initiatives and policies could be improved to facilitate their growth.

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List of Abbreviations

ANOVA – Analysis of variances

BIS – Department of Business, Innovation and Skills

DEFRA - Department for Environment, Food, and Rural Affairs

FAME – Bureau van Dijk FAME Database

FSB – Federation of Small Business

HOMALs – Homogeneity Analysis

LPE – Law of Proportionate Effect

MCA – Multiple Correspondence Analysis

NI – National Insurance

NUTS – Nomenclature of Units for Territorial Statistics

OECD - Organisation for Economic Cooperation and Development

PAYE – Pay As You Earn

R&D – Research and Development

SBRC – Small Business Research Centre

SME – Small and Medium sized Enterprise

SMEs – Small and Medium sized Enterprises

SPSS – Statistical Package for the Social Sciences

VAT – Value Added Tax

1. Introduction

There has been growing emphasis and research within the field of small business management. Storey (1994) advocates the importance that small businesses have on the local economy and their potential to generate impact further afield. Lee and Cowling (2013) and Ayyagari *et al.* (2011) note that small businesses or Small and Medium Sized Enterprises (SMEs) are important contributors to the local economy, active in job creation and enriching of the community.

North and Smallbone (1994) in the early nineties suggested the importance of detailed research into rural businesses and to focus upon long term competitiveness or uncompetitiveness as a product of locality. Similarly Curran and Storey (1993) in the same decade examined in depth the rural and urban divide and how SMEs are affected by their geography. Fast forward to the next decade and the expansion of research into internationalisation strategies (Westhead, Ucbasaran and Binks, 2004) and attitudes to growth of SMEs (Mochrie, Galloway and Donnelly, 2006) suggests increasing complexity and focus upon rural firms.

Current and previous discourse indicates the need for further research and understanding into SMEs and more specifically those that operate in a rural location. This notion is particularly true given the current political desire to facilitate growth in SMEs (Lord Young, 2012; 2013; House of Lords, 2013; BIS, 2015a; BIS, 2015b).

The value that SMEs have on not only their local economy but that of the nation has also been extensively reflected in recent studies (see Dobb and Hamilton 2007; Wiklund *et al.* 2009; Leitch *et al.* 2010; McKelvie and Wiklund 2010; Hansen and Hamilton 2011) suggesting the prominence of this area of research.

A recent briefing paper by the House of Commons (Rhodes, 2015) suggests that 99.9% of businesses in the UK are SMEs generating 47% of the private sector's turnover. Likewise small firms contribute to the employment of just over 15.6 million workers (BIS, 2015b). In contrast, large firms reflect only 0.1% of the UK market. These statistics and previous discourse highlights the value and importance that SMEs have on the economy of the country.

Notably, there has also been growth and expansion in the ‘birth’ of SMEs firms within a rural location. Bosworth and Atterton (2012) and Curran and Storey (1993) contend that a large majority of entrepreneurs add to the community when they seek to setup businesses in their locality, returning home to operate a business in their ‘hometown’. Similarly Beaver (2003) and Westhead (1995) suggest the growth of in-migrants coming into communities seeking for either a new start or to build a lifestyle business in a desirable location.

These notions and growth of rural migration (Wong, 1998; 2001; Groves-Phillips, 2013) has led to increasing numbers of rural SMEs being born. Indeed the Federation of Small Businesses (2010) indicate the dominance rural firms have on its membership. Similarly Blanchard (2015) and Roberts *et al.* (2006) discuss how SMEs and rural firms play a prominent role in to the social-economic and political infrastructure of developed countries.

Given the changing and growing emphasis on the importance of SMEs, there is a strong pertinent justification for its review. Nonetheless while there are a large number of ‘births’ of small firms, there is often complexity behind their success, more specifically in the context of rurality.

Generally, it is assumed that success can be measured in terms such as growth and profitability alongside indicators such increasing employee numbers (Storey, 1994; Keh *et al.*, 2007). However, other research suggests that success may be measured through longevity suggesting that a firm’s ability to survive in the long-term equates to success (Ruzzier *et al.*, 2006; Camacho-Miñano *et al.*, 2015). Hussain *et al.* (2006), Cowling (2010) and Udell (2015) place precedence on financial variables such as turnover, profit returns and cash flow as better indicators of firm success.

Bridge *et al.* (2003) and McKelvie and Wiklund (2010) strongly consider firm growth as vital for facilitating success, where expansion of products and service lines alongside widening their marketplace, enables SMEs to create a competitive advantage.

Dobbs and Hamilton (2007) discuss the vital role that the entrepreneur plays in driving any changes to the business and their propensity for risk, notwithstanding,

the desire for any firm to survive in the long-term. The key remit for any firm is not to fail but rather try to sustain its business over the long-term.

As such, the dominant literature within the subject area discusses a number of resource based streams related to success (Dobbs and Hamilton, 2007). These are in the areas of growth, innovation and finance. Similarly within the context of the learning organisation survival, longevity and the ability of the entrepreneur suggest a viable context to the success of the firm (Dobbs and Hamilton, 2007). These streams provide an opportunity for the study to build upon the notions of business management within the context of SMEs. Similarly this enables the study to position itself and contribute appropriately to current knowledge in the field.

While this is by no means a complete framework for the examination of measures of success for SMEs, it does signpost some key areas for consideration. It does build upon models developed by Dobbs and Hamilton (2007) on growth, innovation by Schumpeter (1934) and Deakins and Freel (2009), and more current issues on finance as indicated by Gray *et al.* (2013). Likewise issues related to the entrepreneur have been extensively documented by Love and Roper (2015) and Koryak *et al.* (2015) while survival of the firm is a common thread in research into SMEs (Lee *et al.*, 2012; Williams, 2014).

These issues are examined within the context of the inherent geographical considerations. The study undertakes an exploratory approach to the research area and seeks to make sense of the perceptions of entrepreneurs within a rural location. Thus, the different measures of success as indicated by the literature are examined through the lens of rurality.

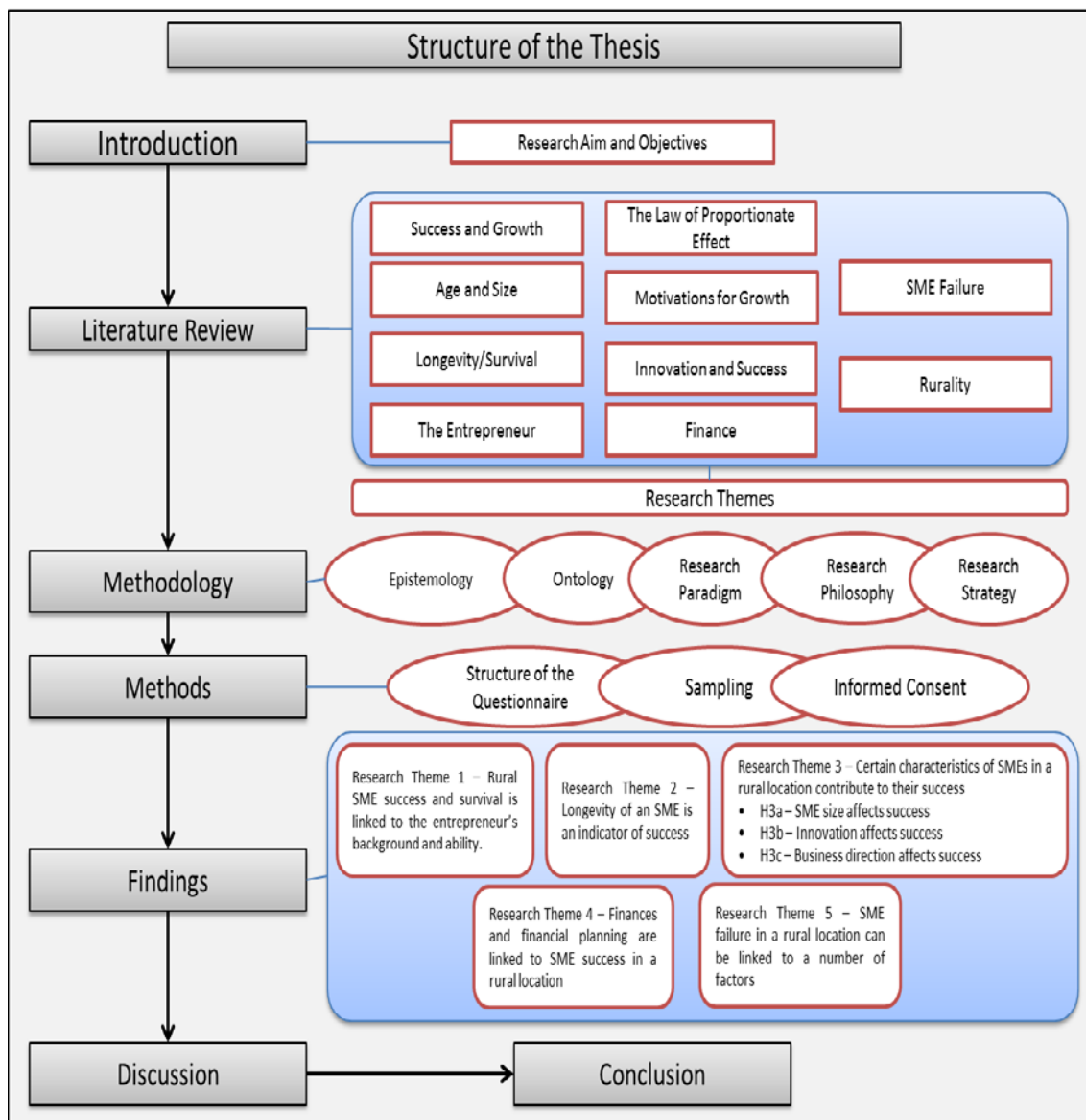
Therefore the thesis is structured around these elements, examining the complexity of measuring success followed by the notions of growth, size, innovation and finance. These examine the resource-based context of SME studies, while the role of the entrepreneur and longevity provide a review of streams as suggested by Dobbs and Hamilton (2007). Ultimately to provide a more consistent review of measures of success, the study further examines any factors that can contribute to rural firm failure.

Thus given the importance that rural SMEs have on the economy it is vital that further research is undertaken to enable rural businesses to become successful. This study is in a unique position to identify what are the prevalent elements that affect success and therefore contribute to both academic knowledge in the field and potentially practice through an exploratory lens. It is hoped that the research contribution will lead to enhanced understanding into rural SMEs and the difference their locality has upon success. Similarly, by being able to uncover key findings based upon the perceptions of entrepreneurs well versed in the field, it is envisaged that the results of the study will contribute positively policy, signposting areas for focus.

1.1 Structure of the Thesis.

The thesis is segmented into 7 chapters each containing an introduction to the section which provides an overview of contents discussed within them. The overall structure of the thesis begins with an insight into the different discussions within the literature and the development of the research themes of the study to ultimately providing a detailed account of the contributions to knowledge (see figure 1). The research themes are based upon the different concepts across measures of rural SME success. The thesis is structured as such, to provide the reader with an account of the different measures of success with a detailed examination of how these affect rural firms.

Figure 1 Structure of the Thesis



1.1.1 Literature Review.

This chapter provides a detailed discussion of the dominant issues within the field of small business management namely focusing on the different measures of success. It discusses the different approaches to growth and how size and age of the SME affect the examination of success. The chapter also reviews the importance of longevity and survival of the firm and the role the entrepreneur plays in driving the business forward.

It then moves onto the different methods of innovation and how different approaches enable a firm to succeed. A review of financial considerations such as sources of

funding and prevalent metrics to examine business health is then undertaken. The chapter continues with a review of the causes of business failure as well as providing an insight into the notion of rurality and the increasing number of in-migrants entering into rural locations in the UK.

The chapter ends with the design of research themes that have emanated from the aims and objectives of the study and the prevalent issues within the literature. These have set the scene for the research methodologies selected (chapter 3) and the analytical approaches within the findings chapter (chapter 5). It is important to note that the research themes are prevalent concepts that are being ‘tested’ within the study. These are utilised to enable the study to explore if certain measures of success are applicable to rural SMEs based upon the perceptions of entrepreneurs.

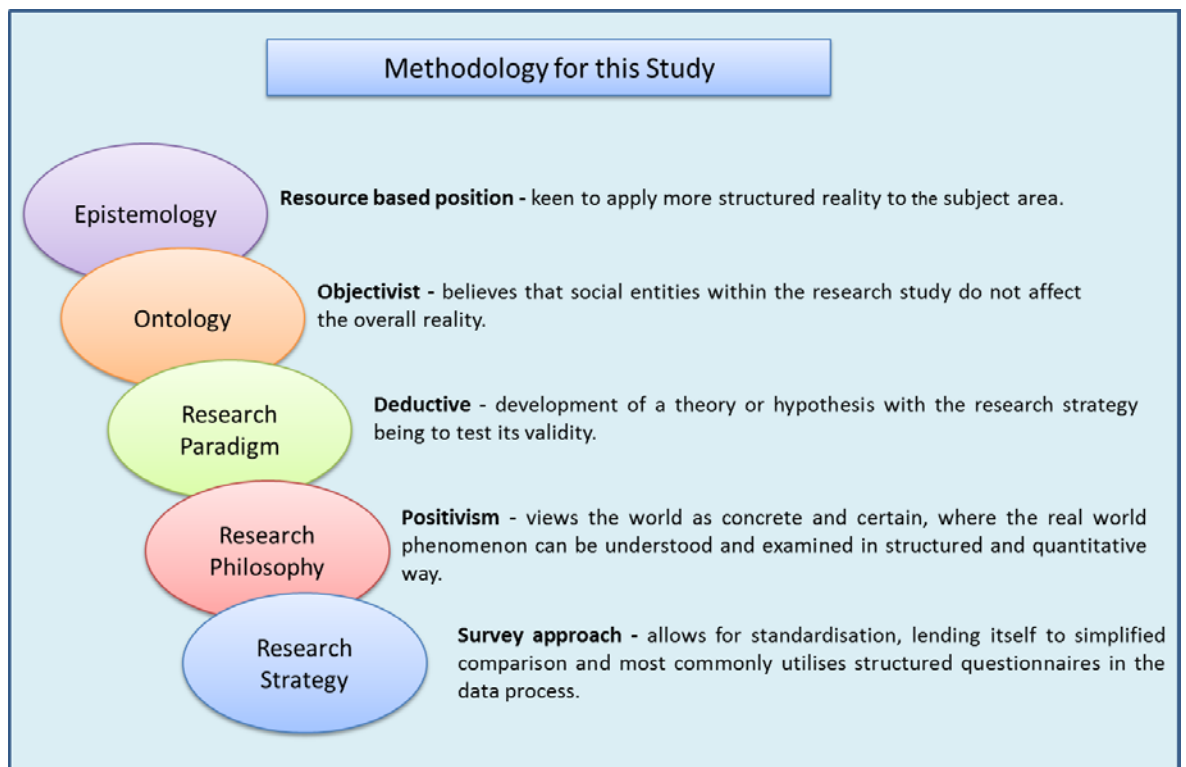
1.1.2 Methodology and Methods.

The chapter examines the epistemological, ontological and philosophical positions within the field of research methodology and discusses the appropriate selection and usage of each for the purposes of the study. It details the rationale behind the selection of a resource-based, objectivist and positivist methodological underpinning for the purposes of the research.

It then discusses the usage of the quantitative questionnaire as the most appropriate methodological approach. It also highlights the dominance of this research method in previous studies in the area of SMEs.

An overview of the methodological approaches selected can be seen in Figure 2 below.

Figure 2 Methodological Approaches of this study



Utilising the findings of the literature review, the structure of the questionnaire is discussed with appropriate consideration of ethics and informed consent.

Sampling considerations between probability and non-probability approaches are also detailed here. The rationale for the usage of the Bureau Van Dijk FAME database is also discussed. The ability for the FAME database to segment SMEs within DEFRA's definitions of rurality and local regions meant that the study was able to collect accurate raw data.

Through FAME, the study was to identify a reliable sampling frame where probability sampling approaches could then be utilised. A random sampling method was applied to the population of rural SMEs in the North West of England. Validity and reliability of the survey construct and that of the study is also discussed here.

The study effectively utilises an exploratory approach to identify the key elements that affect the success of rural SMEs. Through this exploratory lens, the study is able to uncover the key factors that are prevalent within the rural geographic regions of the North West of England and signpost clear areas of consideration. The study undertakes this through collecting perceptual information of entrepreneurs that

operate within this rural region and identifying the key factors that affect rural SMEs based on their views.

1.1.3 Findings

This chapter begins with an overview of descriptive findings from the questionnaire survey, displaying the percentage of responses and summative findings of categorical questions. The chapter is then segmented by the 5 research themes each containing a detailed discussion on the statistical approaches utilised and subsequent findings. It displays results of a range of statistical tests undertaken in SPSS v22.

It further examines how the background of the entrepreneur affects the potential for rural SME success, how longevity and survival is viewed in a firm's business desires and financial performance as a measure of success.

This section also reviews the approaches to innovation, business direction and if SME sizes of micro, small and medium affect the potential for success. The chapter ends by discussing the findings of SME failure within a rural context.

Ultimately the chapter provides detailed findings based upon the perceptions of the entrepreneurs surveyed.

1.1.4 Discussion

This section of the thesis provides a detailed review of the findings of the primary data collected by the study and posits some conclusions for consideration. It also reviews the findings within the context of current literature, examining the validity of the research themes created in Chapter 2.

It discusses how the notions of longevity, entrepreneur background, innovation, SME size and business direction play an important role in the success of rural firms, identifying areas which reflect current literature and where contributions to knowledge have been made.

The chapter provides an overview of the limitations of the study, signposting avenues for future research into the area of small business management within a rural context.

Ultimately it provides a detailed discussion on the contributions to knowledge the study has made.

1.1.5 Conclusion

The final chapter in the thesis provides a summary of the rationale for the study and the key themes within the literature review. It discusses the methodological selection, but more importantly provides a detailed overview of the findings of the research study. It suggests novel outcomes and conclusions based on the perceptual data collected which should be considered in the field of SME research, signposting contributions to current knowledge. It concludes by suggesting areas for future research.

1.2 Research Aims and Objectives

This study aims to identify the different measures of success and the prevalent approaches, behaviours and measures of success/failure for SMEs as highlighted by entrepreneurs and in the context of rural areas within the North West of England.

It hopes to contribute to current understanding by advancing knowledge and insight in rural businesses and identify the key factors that affect and can contribute to success in an exploratory manner through:

- **Exploring the different indicators of SME success and identify any prevalent contributing factors.**

This objective seeks to review the current approaches to determining success and identify if prevalent measures are applied. These include but are not limited to longevity, finance and growth within a rural context.

- **Examining which factors more accurately represents success in rural SMEs.**

Through collecting and analysing the responses of entrepreneurs in rural SMEs, this objective intends to identify indicators and measures of success. Utilising a range of statistical tests and analysis, it is hoped that the study will be able to identify clear measures of success.

- **Examining if there exists any prevalent factors that lead to business failure.**

Similarly, for completeness, the study further intends to identify if there exist any prevalent factors that lead to business failure.

2. Literature Review

This chapter seeks to provide the reader with an overview of the prevalent issues affecting the area of small business management within a rural location. Through critically examining literature and current discourse within the field, the chapter discusses some of the key issues such as longevity, finance, growth and failure. Within the context of rurality, its different definitions and considerations are also discussed here.

It begins by discussing the various definitions of growth and the inherent difficulties in its undertaking for a small firm. It also details the inherent complexities in accurately measuring SME success.

Examining the different elements of success and the inherent intricacies of its measurement, the chapter explores how internal and external measures of success can vary between the entrepreneur and traditional metrics such as financial success. Measuring success is made further ambiguous by the dichotomy of quantitative indicators against more subjective approaches such as quality. As such success measured by profitability and increases in market share differs from success measured by social contribution to the locality.

The different established approaches to growth, the stages with the lifecycle of a new firm and how these are viewed against firm success are also reviewed in this section. It further places equal importance on firm failure and includes a review of current literature on this. Indeed it uncovers similar complexities in defining business closure and failure as well as the prevalent reasons for a firm's demise. It moves on to discuss the context of rurality and the different factors that affect SMEs based and operating from such locale and geography.

Ultimately the chapter hopes to provide an overview of the different approaches that enable SME growth and success as well as the concerns that lead to business failure. It discusses the prevalent conceptual issues within the literature and the inherent inconsistencies in examining SME success with a rural framework. The headings utilised are based upon these prevalent concepts examining growth, size, longevity and innovation as well as the literature on the ability of the entrepreneur. Across

current discourse, these notions are repeatedly suggested as being of importance to SMEs. The aim of the chapter is to synthesise these issues within the background of rurality. To aid this desire, a section detailing demarcation and definitions of rurality is provided.

Other factors that could affect rural SME success will also be discussed in this chapter and have been placed within the larger concepts where possible. It is important to note that these have been considered, where possible, in the design of the research and the data collection instrument but only in the minor rather than major. It is foreseeable that minor contextual elements may affect rural SME success but the scope of this study remains focused upon the dominant issues.

Literature within the area is also dominated with reasons for SME failure. To ensure thoroughness and a holistic interpretation of the prevalent issues, current discourse into SME failure is also examined in this chapter.

By examining these key issues within the context of SMEs operating in a rural location, this chapter facilitates the achievement of the research objectives detailed in Section 1.2. Thus, current literature examining the prevalent elements that affect rural SME success are reviewed in this chapter alongside failure. These are explored within a rural context.

2.1 Success and Growth

From an historical perspective, larger firms were presumed to be the key drivers of economic growth. Caves (1982) and Teece (1993) indicated the increasing role of large-scale enterprises in both domestic and international economies. From a traditional micro-economic perspective, knowledge is expensive and, as there are fixed costs to be faced by all firms particularly in an open economy, it is not surprising to see large firms dominate in global markets, while SMEs seemed to experience a distinct disadvantage. For research into SMEs, employee numbers are limited or constrained to under 250 (Ayyagari *et al.*, 2007).

However, it has been suggested that the small firm sector and entrepreneurial activity have emerged as major engines of economic growth and social development throughout the world (Beck and Demirguc-Kunt, 2006; Hessels and Parker, 2013). For instance, Audretsch and Thurik (2001) suggest that there is a shift from the

managed economy to one based on entrepreneurial evolution. Indeed this evolution has extended to entrepreneurial marketing (Hills *et al.*, 2008) and even innovative growth in farming (Phillipson *et al.*, 2004). Research into smaller firms is also starting to gather stronger momentum (see Keeble, 1997; Oke *et al.* 2007; Foreman-Peck, 2013; Glover, 2012; Love and Roper, 2015). Current political stances across the globe and more specifically in the UK place more importance and desire to advance growth in small and local businesses, further emphasising the importance of research into smaller firms.

Often entrepreneurs and owner-managers have a narrower definition of success in comparison to external stakeholders (Beaver, 2003). Entrepreneurs often define and measure success of their business based on their own personal metrics as opposed to more generic and standardised approaches. For example the agenda leading to success of a family business is often only understood by the principal family members (Leach and Bogod, 1999; Fletcher, 2002). Indeed Beaver (2003: p115) provides a more candid measurement of success by the entrepreneur as a “lifestyle business that has been established to provide a measure of independence with an acceptable income at a ‘comfort-level’ of activity.”

This is in contrast to the views shared by external stakeholders, where success “will be measured and defined... dependant on the stakeholder’s orientation towards the enterprise [which] can be expected to change over time” (Beaver, 2003: p119).

Nonetheless, SMEs are considered as important drivers for the creation of employment, economic growth and increased national as well as regional competitiveness in a globalised economy, and are therefore crucial to enhancing competitiveness (Williams, 2014; Memili *et al.*, 2015).

However, it is also important to note that data in the public domain (indicators), which might imply that SMEs are either ‘successful’ or ‘unsuccessful’, usually is based on VAT registration and deregistration statistics. VAT registration and deregistration have been described in the past as “the best official guide to the pattern of business start-up and closure” (Small Business Service, 2006). For instance, Smallbone and Major, (2003) claim that, according to Small Business Service (SBS), the best method of measuring birth and death rates of SMEs are

through VAT registrations and de-registrations respectively. It could also be argued that they are a good means of measurement.

BIS (2015c) suggest a healthy sector given the increases (7 points) in comparison to figures in 2012. It is important to note that there are caveats to these financial measures of success. The University of Strathclyde (2004) states this data could be unreliable as changes to VAT registrations may be due to various reasons. Importantly, the use of VAT registration data as a sole indicator of SME health certainly needs to be questioned. Kitching (2006) for instance, suggests that many firms may operate just under the threshold of VAT to avoid regulatory obligations. Smallbone and Major (2003) also indicate that, in rural areas, SMEs tend to be in business longer, although the Performance and Innovation Unit and Small Business Service (2001) suggests SMEs in the South East of England are inclined to do better in areas of export. Similarly, Lee (2014) views the inclusion of government barriers such as VAT, PAYE and National Insurance, are in itself a flawed approach in the examining of SME growth. The nature of these regulations creates a restrictive effect on the potential of the firm.

As such SME growth is an important issue that needs to be examined in greater detail. This is mainly a product of increased competition and the need to create some form of competitive advantage. More specifically any growth that enables small firms to engage in business operations which allow them to enhance and solidify their position in the marketplace. Penrose (1959) discusses a number of vital issues within the examination of SME growth such as the age and size of business that can affect the overall success of an SME. Moreover she further posits that SME growth is dependent upon industry affiliation. Often growth is determined by a number of factors such as employee numbers, market share and turnover. Pasanen (2006) suggests a likely determinant of successful SME growth could be measured by the number of employees and establishments it has. Nonetheless while employee numbers can be a measure of growth, it is often viewed with less importance by entrepreneurs (Walker and Brown, 2004). Instead growth based upon turnover and increases in sales are the more likely focuses of current business. The drive towards profitability and expansion of market share is a constantly examined indicator of growth within the literature (Garengo *et al.*, 2005; Roper, 1999; Kaplan and Norton, 1992; Delmar *et al.*, 2013).

Interestingly, and echoing the vital issues for growth highlighted by Penrose (1959), Pasanen's (2006) own findings suggest that the age dimension is related to SME growth. Indeed he uncovers that long-lived firms are more able to sustain themselves better in comparison to younger firms. A finding similarly shared by Anderson and Eshima's (2013) research into Japanese SMEs. This mirrors Gibrat's law where the size and age of firms (although not necessarily for start-ups) affects their growth with a possible predicted inverse relation. Gibrat's law posits that the smaller and the younger the business the greater the potential for higher growth (see chapter 2.2).

While profits are often linked to the size of a business and in turn growth, Walker and Brown (2004) find that it is difficult to determine the linked causality between the two. Indeed these differences are ever more evident when analysing small business growth in absolute or relative measures. Shepherd and Wiklund (2009) add by suggesting that measures of growth are not always as accurate as could be, with comparisons being relative to size and percentage figures somewhat misleading. Cooper *et al.* (1989) found that when measuring growth through a relative approach it is the younger businesses that return with higher levels of growth. Davidsson and Delmar (1997: p312) suggest that "growth defined by relative measures tend to favour smaller firms in comparison to a definition based on absolute growth". Examining growth as percentage change can often highlight more prolific growth in small firms. Growth examined through such relative measures has the potential to be skewed as, for example, small increases in employment numbers in small firms inevitably return a higher percentage of relative change. As such small firms having a 50% increase in percentage growth may only have recruited a handful of new staff. This compared to a large company, where a 50% increase may equate to thousands of new recruitments.

Headd and Kirchhoff (2009) view growth in employment as incorrectly indicating a 'volatile percentage employment swing' where new firms have massive growth percentages and similarly quick drops, potentially as a product of retention issues. Nonetheless they also contend that this forms part of the settling process of new firms.

Some previous research (Storey, 1994; Havnes and Senneseth, 2001) as well as current (Lee, 2014; Love and Roper, 2015) suggests a close connection

between growth and the performance of a small firm, where increased growth leads to improved performance and vice-versa. Tonge *et al.* (2000: p489) provides one measure of high-growth as those firms that “a sales revenue turnover of between five and two-hundred-and-fifty million pounds sterling over a four-year period and a compounded annual growth rate based on sales turnover of at least 15 per cent over three year period”. The issues of growth and the restrictive variables that prevent its expansion is increasing dominant within the literature owing the importance placed on SMEs within the economy (Lee, 2014).

It may be intuitively appealing to equate small firm growth with small firm performance. However, growing firms are not necessarily successful in other respects, and successful small firms do not necessarily grow. A firm may experience negative cash flow and low return on investment during an expansion phase (Aernoudt, 2003; Flamholtz, 1986). As part of its strategies for growth as well as its initial establishment phases, a new firm may trade off positive cash flows and its returns on investment for expansion purposes. Therefore, the overall finances during the initial phases of any new firms may not provide an accurate overview of its health. But it is also possible for a small firm to deliberately trade off long-term growth for short-term profits (Zahra, 1991). As such a small firm can exhibit high economic performance while not growing, potentially exploiting a gap in the marketplace and seeking expansion once a sizeable ‘war chest’ is available. These differing views suggest that the relationship between economic performance and growth may be relatively complex, and dependent on choices made by small business managers.

As such, another key measure of success is related to market share. Robson and Bennett (2000) and Havnes and Senneseth (2001) argue that exporting products and services internationally is an approach which is often linked strongly to expansion of a company’s market share. In addition to this, Beaver (2003) discuss how growth could be attributed to the product-service mix with a larger and more diverse range of products and services signaling high growth. An approach shared with Littunen and Tohmo (2003) and Kelley and Nakosteen (2005) who posits that the greater the set of products and services provided by a business the better chances of capturing a larger market share.

Indeed there is also the potential for the focus of the business to extend past borders and into international strategies (Ghauri and Kirpalani, 2015).

Nonetheless, Pasanen (2006) contends that while long-lived firms are often viewed as companies in their own right, it is important not to forget that these are still SMEs by their definition. There is a tendency, as a product of firm longevity, to assume that businesses have overgrown their SME beginnings.

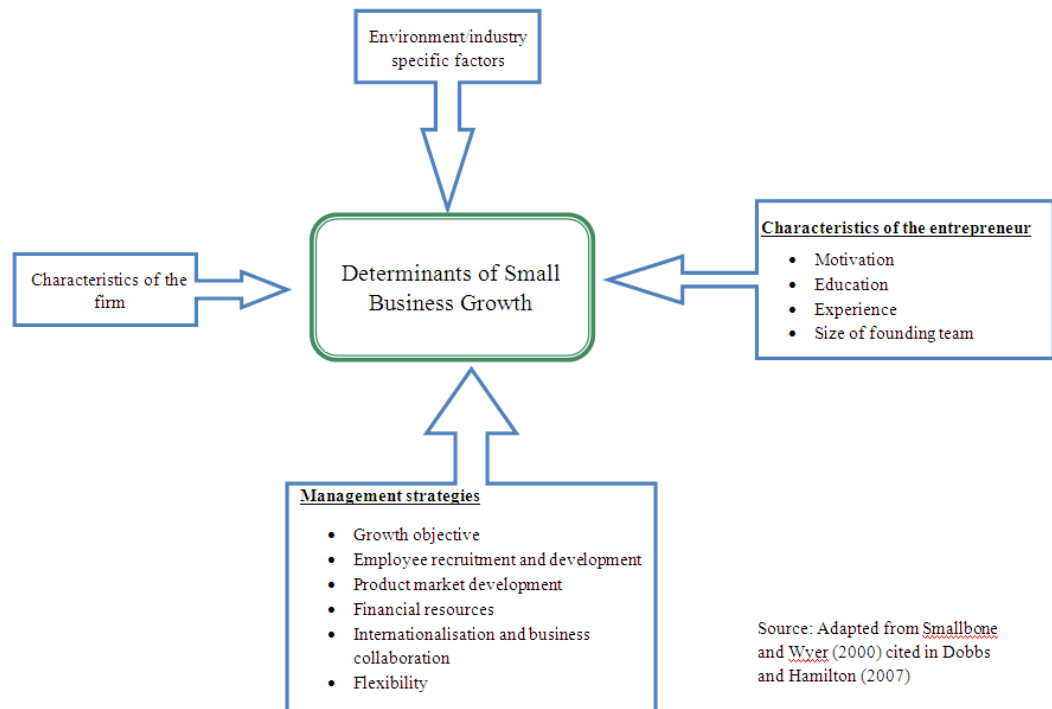
While market share expansion (Robson and Bennett, 2000; Havnes and Senneseth, 2001) and increases in employee numbers (Pasanen, 2006) are more traditional approaches to SME growth, there have been suggestions that non-organic approaches to growth may be a viable method for SMEs (Delmar *et al.*, 2003; Chatterjee, 1992; Vermeulen and Barkema, 2001).

Pasanen (2006) suggests that growth through acquisitions is a potential avenue that could be explored alongside more traditional and organic approaches applied by SMEs. Uhlaner *et al.* (2013) suggest that innovation and good external sourcing would enhance potential for growth. Lee (2014) posits that there exist more forces that hinder growth than facilitate it, although the desire for recruitment, skills and enhancing cash flow is prominent.

Nonetheless while avenues and methods of growth are important, Dobbs and Hamilton (2007) discuss the value that needs to be placed upon measuring growth. They (Dobbs and Hamilton, 2007: p313) provide one measurement of growth as a “change in size over a given time period. Thus, firm’s [sic] rate of growth can be identified through linear interpolation its observed size at the beginning and end of the period.”

Smallbone and Wyr (2000) identify four key categories in the appraisal of growth that could be utilised to evaluate the successful expansion of SMEs (see Figure 3). They posit that a number of factors such as the industry, the characteristics of the entrepreneur, business strategies and the firm itself all affect potential growth. They suggest that each has an effect on the ability, potential and keenness for the business to expand. The option to grow via expanding markets or employee numbers for example are inevitably affected by this mix of forces.

Figure 3 Determinants of Small Business Growth



Dobbs and Hamilton (2007) do warn in their examination of previous discourse and research that growth measures are not fully accurate and can often provide spurious results. While traditional methods of growth are aligned to increased sales and high staff employment, studies have also shown that profitability can occur even with reducing employee numbers (Delmar, 1997). It is highly plausible that firms could grossly expand past its capacity, where the application of employee redundancies and cost-cutting approaches could lead to profitability.

As such, the measurement of growth can be highly complex and determined through either a small or large range of variables. The scope of measurement and the range of values utilised can either provide a very accurate reflection of growth or one that is highly subjective (Kiviluoto, 2013). Beaver (2003: p116) adds that “singular notions of small business success are not only inappropriate, they are naïve and unhelpful.” Indeed Dobbs and Hamilton (2007) among others (Delmar *et al.*, 2003; Nummela *et al.*, 2005; Davidsson and Wiklund, 2006) advocate the use of the multiple measures of growth to ensure a more accurate and reflective examination of a firm. The

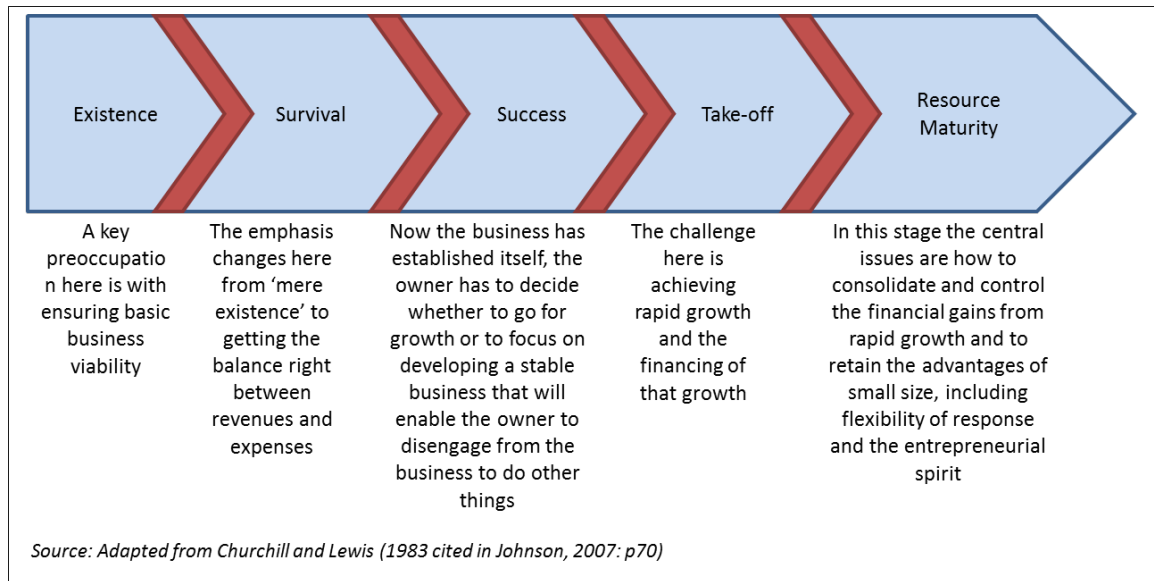
approach enables a more robust means to test the overall growth patterns and levels of firms. This is indicative of the complexities and varying approaches undertaken by previous discourse in ascertaining growth.

Dobbs and Hamilton (2007) suggest that while there are numerous measures to ascertain growth in firms, it is the ability for a business to sustain itself in the long run that is of greatest importance. While growth in market share, profitability and employee numbers may provide quantifiable measures, in effect, the longevity of a business dictates strongly its survival. They undertook an extensive examination of previous literature on measures of growth and uncovered 5 major measures of growth, which are

- Sales
- Employment
- Assets
- Financial Growth
- Profit

With the exception of employment and assets, the majority of measures seem to be based along financial metrics suggesting growth can be strongly linked to business performance on these indicators. Hanks (2015) add that to grow assets and employment often requires more structural changes to the firm than financial margins. This could suggest why firms favour financial growth in the first instance. The rewards gained by increased profitability would also override the desire for growth in numbers. Johnson (2007: p70) identifies 5 stages of development in firms which are existence, survival, success, take-off and resource maturity (see figure 4 below), which may signpost how growth is measured and facilitated differently.

Figure 4 The five stages of new firm development



Dobbs and Hamilton (2007) chart the prevalent studies in SMEs and suggest that research into SMEs fall within the 6 main models of Stochastic, Descriptive Evolutionary, Resource-based, Learning and Deterministic (see table 1 below)

Table 1. 6 Main models of growth	
Stochastic	Stochastic models of firm growth, developed mainly in the field of economics, suggest that there are a large number of factors which affect growth, thus explaining the absence of any dominant theory. Based upon Gibrat's Law, it is the formal acceptance that there are a large number of causes behind the change in size of a business, but none which exert a major influence over time.
Descriptive	This type of model does not attempt to explain what causes a business to grow. Rather, they are concerned with how a small business adapts internally in order to continue its growth and most of the criticism that they have attracted is because they postulate a growth process through a sequence of stages or crises without offering any supporting evidence.
Evolutionary	The growth of a firm over a period of time is contingent on the interaction of a number of internal and external forces.
Resource-based	The essence of this theory, as applied to small firms, is that their growth depends on the managerial resources available over time to plan and manage growth in addition to maintaining current operations.
Learning	It is through learning that the critical resource of sufficient knowledge is created in the decision-makers, which in turn facilitates the subsequent evolution of their business. At the risk of over-simplification, the growth path of each business will mirror to some extent the dynamics of learning within the business or, more succinctly, "organisational growth is ultimately dependent on satisfactory resolution of the crisis of "knowing".
Deterministic	The objective is to identify a stable set of explanatory variables, relating to the people, the firm, and its industry environment, that can explain a major proportion of the observed variation in business growth rates.
Source: Adapted from Dobbs and Hamilton (2007)	

Nonetheless, it is hard to apply the 6 models to specific studies, as often there are overlaps in approaches and considerations. For example, it could be argued that learning models of growth are interlinked with evolutionary approaches.

The literature suggests that growth is not based on these metrics in singularity but rather a mix of different measures throughout the lifetime of the business (Hanks, 2015; Anderson and Eshima, 2013; Uhlaner *et al.*, 2013). Dobbs and Hamilton (2007), Mitra and Pingali (1999) and Churchill and Lewis (1983) discuss the potential for measures of growth to be linked to the stages of development of new firms, although O'Farrell and Hitchens (1989) and McLarty (1998) retain doubts on the approach. Indeed the levels or strength of growth is not only influenced by, but is relative to the stage of development.

2.2 The Law of Proportionate Effect

What is known about the relationship between size and growth? A good starting point for a discussion on this relationship is the Law of Proportionate Effect (LPE), sometimes known as Gibrat's Law (Gibrat 1931). LPE postulates that firm growth is a stochastic phenomenon. Of course it is not difficult to suggest specific features of small-scale operations that either inhibit or facilitate growth. Growth-inhibiting factors may include, for example, poorer access to funds; fewer opportunities to exploit economies of scale; and a motivation that may not rank growth very highly. Growth-facilitating characteristics may be the greater flexibility of small firms; their bigger incentive to get to a size where they can compete effectively; an owner's stronger personal identification with the success of the business; and a higher commitment to personalised service, a particularly important requirement for growth in some industries, notably services.

On top of these factors, a range of external influences may impact differently on firms of different sizes. These influences may include policy shifts, changes in market conditions and macroeconomic 'shocks'. The underlying assumption of LPE is that the overall impact of all these different forces is that together they operate to produce a random effect on firm growth.

Three implications of LPE should be noted: firms in different size bands will have the same mean proportionate growth rate; the dispersion of growth rates around this mean will be the same in each size band; and growth rates in any given period will be independent of the growth rate in the previous period.

A vast number of studies aimed at testing the empirical validity of this law have been undertaken. The majority of these studies have used databases which are mostly made up of firms towards the top of the size distribution. However there are some studies (Bentzen *et al.*, 2012; Daunfeldt and Elert, 2013) that cover firms across a wider size spectrum or which focus exclusively on small firms and argue that Gibrat's Law, while cited extensively, need not always apply.

One of the earliest and so far most comprehensive UK studies is that by Dunne and Hughes (1994) who based their analysis for 1975-85 - and two five-year sub-periods - on all independent companies in the financial and non- financial sectors which were on the Extel database, i.e. all quoted and the larger unquoted companies. Although their study covers a wider range of firm sizes than most other comparable studies, it still suffers from severe under-representation of very small businesses, most of which are not incorporated. Around 25 per cent of their sample employed fewer than 500 people, whereas the percentage for the UK business population in this size category, including those firms with no employees, is well over 99 per cent. Nevertheless a number of their results are of interest.

First, their summary of results of published studies highlights the possibility that the size-growth relationship may have changed over time, with the advantage in growth terms moving from larger firms in the 1950s to smaller ones in the 1960s and 1970s. This suggests, importantly, that some empirical results may be time specific. Policy changes may have something to do with the shift Dunne and Hughes identified: in the 1950s there was much more emphasis on assisting larger firms, whereas in the 1970s and onwards the policy focus switched to smaller firms.

Second, their study, which measures size (and growth) in net assets terms, suggested that overall, small firms tend to grow faster. There is however a suggestion of a threshold effect; beyond this threshold size, the mean growth of firms in different size bands is fairly stable. Dunne and Hughes show that in broad terms, the small firm's advantage in growth terms still holds when they disaggregate the data over nineteen industries. Thus industry effects are not accounting for the results. Their findings are supported in a comprehensive study of US manufacturing over the period 1976-80 (Evans, 1987) and further evidenced in Scherer and Ross (1990).

Third, they found an inverse relationship between size and the variance of growth rates. This finding may in part be explained by the fact that in the smaller firm categories, there is a greater preponderance of younger, inexperienced management. Another possible explanation is that larger firms tend to be more diversified and are thus able to spread their risk across sectors and projects. This finding on the variance of growth is not universally found although the weight of evidence (Scherer and Ross 1990) supports Dunne and Hughes. Finally, Dunne and Hughes (1994) found that for those firms that survived both sub-periods, there is only very limited support for the hypothesis that growth in the second period was significantly influenced by growth in the first period.

Interestingly in developing countries, findings are suggestive of the ambiguity and overall validity of Gibrat's Law. Nassar *et al.* (2014) and Almsafir *et al.* (2015) for example suggest the relationship to be relatively weak and find little strength in its principles. Yet there are still examples of Gibrat's Law in practice. In Bentzen *et al.*'s (2012) study of 2,500 Danish firms, they contrast Dunne and Hughes's findings and instead indicate a strong positive relationship between size and firm growth.

More recent studies, have also suggested that firm size and growth have some association, although not always clear. For example, BIS (2015c) identified that SMEs were more likely or less likely to attain their envisioned source of funding dependent on their size, where medium-sized firms were seemingly in a better position. In the review of industrial downturns, Bamiatzi *et al.* (2014) for instance identified that the size of the firm affected its chances of utilising business affiliations for superior performance. They indicate that small firms were positively affected where large ones were negatively affected.

Thus, while the literature indicates size and success to be inevitably linked, there may still be a need to consider the limitations and perceptual fallacies suggested by Gibrat's Law.

2.3 Age, size and growth

The relationship between age and growth may now be briefly explored. In their study, Dunne and Hughes (1994) found fairly strong evidence that the age of firms is negatively related to growth. Thus the older the firm, the slower its growth tends to

be. This suggests a life cycle effect at work. Williams (2014) suggest that firm age and size are related to SME success, where larger and older businesses retain more resources to overcome problems. Ejrnaes and Hochguertel (2013) agree that younger firms will face more issues in their start-up stages in comparison to more established businesses.

Dobson and Gerrard's (1989) very small-scale study of the Leeds engineering sector which covered seventy-nine firms mostly within the eleven to fifty employee size band provides some useful supplementary evidence on smaller firms. They found a negative though not statistically significant effect of size on growth in the early 1980s, where size and growth are measured by real sales and real assets. Similarly Lee's (2014) study on a large number of UK SMEs (4,858 firms), agree that size alongside other factors such as finances and the economy has a significant effect on firm development and growth.

Dobson and Gerrard (1989) argue that this result reflects the fact that larger firms have already exploited their best opportunities for growth - although they provide no direct evidence on this score - and that a given proportionate increase in size requires increasingly greater absolute increases. The latter is of course true by definition, but it is unclear precisely why this should impede growth, if a larger absolute size also provides a better basis for firm growth (e.g. through the provision of specialist management). Uhlaner *et al.* (2013) suggest that it may be due to issues with external sourcing which is more likely to impede sales growth where firm size plays a role in the strength of the effect.

These authors also found that the age of the business had a significant positive effect on the growth of both sales and assets. They argue that older firms will be more able to pursue their preferred objective of higher growth. They do not spell out why this might be the case, but the hypothesis does fit in quite nicely with notions of managerial learning. This result on age is in contrast to that found by Dunne and Hughes (1994) but it may be explained by the fact that the Leeds study focuses on relatively young firms. There may well be a positive effect of age in early years, and then a negative effect. In his study of small firms in Scotland - 78 per cent had ten or fewer employees - in the 1980s, Reid (1991) found that when he regressed growth on size, and business age (with all variables being measured in terms either of sales or

assets), size had a significant negative effect, and age was negative but insignificant. However it should be noted that when Reid introduced other more 'thoroughgoing economic variables'- relating to the nature of the market and its competitive characteristics - into his equations (Reid 1993: p2012), size ceased to be significant, though still remaining negative. Age remained negative but insignificant.

Very early research by Kanter (1985) argues that smaller firms are traditionally more likely and able to make adjustments in comparison to larger firms. A notion further validated by Russo and Perrini (2010) with Haleblan *et al.* (2012: p1040) aptly stating “as firm size increases, exploration may decrease as firms become less adaptive, and as the routinized [sic] behaviour of larger firms increases their inertial pressures, which often contributes to the exploitation of existing capabilities instead of the exploration of new opportunities”. Inevitably, smaller firms retain strong levels of flexibility. Moreover as decision-making predominantly lies with the entrepreneur, unlike in large businesses, changes to the business practices and desires of the firm can be speedily undertaken. Similarly, small firms do not contain complex hierarchies and organisational structures, often favouring a flatter management style and structure. Changing and assimilating to the external business environment is often less complex and less prone to strong difficulties. Haleblan *et al.* (2012: p1040) add that structural complexity will affect the level of innovative diversity in the firm and posit that more focused firms will be more likely to move earlier within ‘acquisition waves’ but contend that the level of diversification “may influence the firm’s awareness of opportunities”.

A case in point is the paper by Oke *et al.* (2007) on SMEs in the UK, which considers the need for any amount of innovation and change. They suggest that any approach to innovation incremental or even through radical step changes is beneficial to the firm. Bridge *et al.* (2003: p304) indicate that while “progressive innovation is predominant, radical innovation opens new markets.” Oke *et al.* (2007) contend that not all businesses are able and willing to undertake radical steps and changes to their business model, although they advocate that incremental or some change is beneficial. Gray *et al.* (2012) reinforce the importance of firm ‘flexibility’ instead, whereby businesses that are either reactive or proactive will be able to adapt quickly to the marketplace and competition. Jennings and Beaver (1995; 1997) highlight the contrasting approaches to management by small and large organisations.

They contend that large businesses apply more predictive and long-term goal driven approaches to their operations while smaller businesses utilise a more adaptive process trying to maximise gain with the available resources.

Gray *et al.* (2012) posit that SMEs need to retain an open approach to business management to ensure that the firm reflects customer demands and trends as well as environmental forces. The ability to adapt quickly to changes as well as be proactive in business direction is vital for firm survival. Westhead *et al.* (2004) expand on SME innovation through examining the need to exploit opportunities in international markets – the idea of ‘export stimuli’. They contend that firms can operate in highly saturated domestic markets with strong hostility within their local environment, indicating a number of barriers to exploiting the export market (see table 2 below). This suggests a disadvantage to SMEs due their size and lack of critical mass to expand the scope of their business. They supposedly lack the potential to have appropriate networks and logistical capabilities to grow their business venture, ultimately falling short due to a lack of resources. Firms at ‘birth’, which are traditionally smaller and still without critical mass, they often suffer the effects of environmental changes.

Chetty (1999) in earlier work agreed that firms that operate in saturated domestic markets are more likely to internalize as an easier option.

Table 2 Obstacles to exporting	
Insufficient pool of resources. Inexperience and smallness	Firms lacking the resources are limited in their strategic options and ability to fully exploit their export opportunities
Operational and logistical obstacles. Increased risk and uncertainty	Cost base and profit margins can limit opportunities
Lack of strategy and environmental fit (informational obstacles)	Firms may lack knowledge and understanding of the external environment and therefore have a strategy that does not fully recognise the opportunities available
Inability to maintain necessary interactions (process-based obstacles)	A lack of resources could limit a firm’s ability to interact with key parties and individuals
Political barriers	Larger firms and established companies would have more control and power over the marketplace
Adapted from Morgan and Katsikeas (1997); Westhead <i>et al.</i> (2004); Wright <i>et al.</i> (2007)	

Deakins and Freel (2009) similarly highlight some of the disadvantages facing small firms which include intangible elements of skills, technological knowledge and information networks. They mirror the findings of Morgan and Katsikeas (1997), Westhead *et al.* (2004) and Wright *et al.* (2007) on the limitations that exist as a product of constrained resources such as finance and political barriers. This suggests that critical mass is a vital element in growth and innovation.

Interestingly some of the disadvantages highlighted in table 3 differ from work by Williams (2014). Williams (2014) research suggests that while small firms are at a disadvantage owing to size, it is unlikely that they will have difficulties in attaining resources.

Table 3 Advantages and disadvantages of small firms in innovation	
Advantages	Disadvantages
Management: Lack of bureaucracy; greater risk acceptance, entrepreneurial management; rapid decision-making	Lack of formal management skills
Marketing: Nearness to markets ensures fast reaction to changing market requirements; may dominate niche markets	Little or no market power; poor distribution and servicing facilities; geographic market expansion may prove prohibitively costly
Technical manpower: Considerable scope for cross-functionality; technologists often ‘plugged-in’ to other departments	Often lack suitably qualified specialists (which may also constrain external networking); often unable to support formal R&D efforts
Communications: Efficient and informal internal communication facilitates rapid internal problem-solving	Lack of time and resources to forge external technological linkages
Finance: SMEs often considered more ‘R&D efficient’ (i.e. innovation can be relatively less costly); ‘boot-strapping’ possible	Difficulties accessing external finance; cost of capital relatively high; reliance upon short-term debt; inability to spread risk

Growth: Potential for growth through ‘niche’ or differentiation strategies	Difficulties accessing finance for growth; entrepreneurs often unable to manage growth
Government schemes: Government schemes established to facilitate small-firm innovation (e.g. Smart, innovation grants)	High transaction costs involved in accessing schemes; few resources available to management collaborative schemes; lack of awareness
Regulation: Some regulations are applied less rigorously to small firms	In general, however, the relative unit cost of regulatory compliance is higher for small firms; patent system prohibitively complex and costs.
Collaboration: Flexibility and rapid decision-making may make firms attractive partners	Firms suffer from power asymmetries in collaboration with larger partners; little, or no, supply chain influence
Organisation: Suffer less from routinisation and inertia	Suffer more from uncertainties and associated costly.
Human resources: Flat management structures and local project ownership are likely	High staff turnover; little formal training
Source: adapted from Rothwell (1989)	

Watson (2012) and Lee *et al.* (2012) suggest that firms can alleviate issues of size through expanding performance of the firm through networks and inter-firm relationships. This effectively widens the influence of small firm through networking with others and developing ‘knowledge networks’ (Huggins and Johnston, 2009). Other approaches to nullify the effects of size include strategic alliances (Trott and Hartmann, 2009) and the development of business-to-business ventures (De Brentani, 2001). Strong business-to-business (B2B) ventures enabled small firms to not only be able to change and adapt their products quickly, but ensure that their supply chain is well setup to weather fluctuations in the marketplace. Trott and Hartmann (2009)

argue the benefits of strategic alliances and collaboration, which enable a firm to attain access to different technologies, marketing and technical expertise, and effectively spurring innovation - A form of sharing of information and developing critical mass within a locality.

What is effectively clear is an association between the desire to grow with age and size of the firm. The literature suggests that SMEs owing to their size have more concerns to consider in their desire to grow the business. Established firms seem to hold more capacity in the form of goodwill and clout. The usage of networks and sources of information to expand are all viable approaches for small firm growth. Ultimately it seems the discussion is related to resources and critical mass. SMEs are seemingly at a disadvantage, yet more recent studies (Williams, 2014) argue that resources are generally more available than assumed. Inevitably, the literature does suggest that size and age is somewhat related to SMEs success.

2.4 Motivations for Growth

Business founders differ in their desire to grow and this fact, in turn, is likely (other things being equal) to lead to variations in actual growth experience. As Penrose (1980: p35) has pointed out in her seminal book on firm growth: “a good businessman need not be a particularly ambitious one, and so long as a firm is dominated by men who are not ambitious always to make profits it is unlikely that the firm will grow very large.”

A number of studies have examined growth objectives and motivations among SMEs. For example, Hakim (1989) looked at the growth aspirations of independent firms of under fifty employees. She found that only about 10 per cent of firms (out of nearly three-quarters of a million surveyed) were planning fast growth, while 55 per cent had no plans for growth. Similarly Koryak *et al.* (2015) indicate the prominent role played by leadership and the entrepreneur on the firm's desire to growth. They suggest that the cognitive abilities of entrepreneurs are strongly linked to motivations for growth.

As Hakim (1989) pointed out, small changes of emphasis in the wording of questions in surveys can significantly affect the response. However, she also

presented other survey evidence that supports the conclusion that significant numbers of small firms are not orientated towards growth. This finding is consistent with studies that have developed typologies of small firm owners and show that a substantial proportion of entrepreneurs may be content with their current scale of operations. Owners of 'lifestyle' or 'craft' businesses, for example, do not typically have an interest in growing to any significant scale. Hakim's (1989) findings are also consistent with a number of more recent studies which point to relatively low growth aspirations among 'nascent entrepreneurs' in a number of countries, including the United States, Sweden and Denmark (see the summary in Davidsson, 2005). The trend of home-based businesses has also added further dynamics to the idea of lifestyle business and growth. Syrett *et al.* (2015) asks if lifestyle businesses exist as a product of growth or purely for the benefit of the entrepreneur's desire for flexibility.

Not all the evidence points so clearly to the conclusion suggested by Hakim (1989). For example, Barkham (1992) looked at growth motivations among recently formed independent business in three UK regions: the South East, the North East and the West Midlands. He found that in these regions, the percentage of these businesses reporting 'medium' or 'high' growth motivation were 90, 80 and 74 per cent respectively. (It is worth noting in passing that the percentage was highest in the South East, the most vibrant region in economic terms). Again, a study by Cosh and Hughes (2000) found that about 70 per cent of their 1999 SME sample intended to grow 'moderately or 'substantially' over the following three years. Yet Weber *et al.* (2015) indicate that while the majority of SMEs are keen to grow, many entrepreneurs are often unprepared and lack sufficient knowledge to do so.

It is a little difficult to identify precisely why these other studies suggest a different picture to that painted by Hakim (1989). A significant part of the explanation is likely to be in the samples used. In the Barkham (1992) study, for example, the fact that the firms were all recent formations may have affected the results: new firms may have more energy and opportunity to grow than the general run of established small businesses. It should also be noted that Cosh and Hughes' (2000) survey was a follow-up to a previous one; this may have had an impact on the findings, with some of the less successful firms leaving the cohort in the intervening period. In all the studies, the terms used are rather loose; this in turn makes comparability across

surveys difficult. At the same time it is interesting to note that the Cosh and Hughes study reports that growth aspirations are lowest among the smallest size bands, i.e. those that dominate the Hakim data set.

Whatever the precise picture on motivation, it should be emphasized that aspiration to grow may not always translate into actual growth. Cosh and Hughes (2000) show that of those SMEs wanting to grow 'moderately' or 'significantly' in their 1997 survey, 42 per cent in the event remained static or declined. The ability and opportunity to grow are key factors here (Morrison *et al.* 2003). Koryak *et al.* (2015) indicate that growth is often linked to entrepreneurial desire and the motivation of the owner rather than the purely based on the potential of the firm. This places Weber *et al.*'s (2015) notion for preparedness once again in the spotlight.

It is also without doubt that there is widening policy encouraging SME growth and enterprise which has increased the birth of new firms (Lee *et al.*, 2012). Similarly, there have also been equal deterrents to start-ups where figures on firm death (Campbell *et al.*, 2012) and barriers to entry such as finance and failing economies (Camacho-Miñano *et al.*, 2015), have not gone unnoticed.

2.5 Longevity/Survival

Small firms are historically (Ayyagari *et al.*, 2011; Camacho-Miñano *et al.*, 2015) important in the vital role they play within the economy and local community in terms of the creation of jobs and wealth. However, studies have shown (Lee *et al.*, 2012) that they face an uphill struggle to survive and grow. Often, many small firms die during their first years of operation, or struggle to survive, with the number of small firms that achieve large economic returns to be limited. Nonetheless the ability for small firms to embed themselves within their locality provides both an advantageous position by which to attain a competitive edge as well as catering to the needs of the community (Roberts *et al.*, 2006). This embedding within the local community allows many small businesses to not only survive but excel.

The definition of success of an SME may depend on the time frame. Indeed SME performance can be viewed or measured as either a short or long-term phenomenon, where a high economic output for a financial year can be interpreted as success.

Likewise, the existence of a firm in the long run, i.e. longevity, can equally equate to success through firm survival. As a matter of fact, it has been argued that the most important and most challenging business goal is long-term survival (Simon, 1996). Moreover, survival is, at least in the long term, a prerequisite for success in other terms, such as market share or profitability. To date, however, studies of firm longevity have focused on large companies. On the one hand, the probability of survival decreases over time, where on the other hand, the probability of survival of new firms is lower than that of older firms, which refers to their 'liability of newness' (Stinchcombe, 1965; Aldrich and Auster, 1986). Blundel *et al.* (2014) for example suggest the negative effect even adverse weather can have on the potential long-term survival of small firms. Lumpkin and Dess (2013) indicate that it is the different measures and determinants of growth which enables longevity and survival – being able to grow appropriately affects and could facilitate long-term business operation. There has also been extensive discussion on survival with particularly strong emphasis when viewed against small firms (Lu and Beamish, 2001; Sapienza *et al.*, 2006; Stuart, 2000; Ruzzier *et al.*, 2006; Camacho-Miñano *et al.*, 2015). Camacho-Miñano *et al.* (2015) for example review the effect a negatively performing economy can have on firm survival, seeking to provide a diagnostic warning of likelihood of bankruptcy. Ruzzier *et al.* (2006) suggest an internationalisation strategy as the most appropriate approach given the growing number of small firms operating internationally.

Likewise, numerous measures of performance exist and are commonly used without clear consensus on which approaches are most accurate (Dobbs and Hamilton, 2007; Chaganti *et al.*, 2002). Nonetheless within the area of small firms, survival seems to be a prominent issue (Taylor and Cosenza, 1997; O'Gorman, 2001; Barringer and Jones, 2004). Indeed Williams (2014) contends that more research needs to be undertaken to understand why firms do not survive rather than why they do.

Authors such as Van de Ven *et al.* (1984) claim that while traditional performance measures such as profitability are used when reviewing medium or larger firms these are not necessarily relevant to smaller firms. Indeed they advocate the use of employment or sales growth as more appropriate performance measures. Interestingly, research undertaken by Keh *et al.* (2007)

identified importance to be placed on profitability as a measure of performance, which could enhance business survival and longevity. The approach reduces elements of uncertainty which may negate or restrict business productivity and effectiveness (Wiklund, 1999).

This differs from Brush and VanderWerf (1992) who in their study on small firms that survive, suggest that overall growth is the most appropriate indicator of performance. Sapienza *et al.* (2006) suggest that internationalization strategies could also affect firm survival. They posit that expanding a firm's marketplace provides additional avenues for it to sustain itself.

Williams (2014) and Williams and Jones (2010) argue that geography and location has as much to do with survival as other variables above. They indicate that rural firms tend to perform better owing to less competition and more accessible costs related to buildings. Williams and Jones (2010) do add that the higher transport costs and logistical considerations to attaining stock can override savings made by operating in a rural location.

On the other hand, Storey (1994) and Smallbone *et al.* (1993) posit that survival of a firm is strongly related to the business's ability to adjust over time. Smallbone *et al.* (1993) identified five areas of adjustment:

- Product and market adjustments
- Production process adjustments
- Employment and labour process adjustments
- Ownership and organizational adjustments
- Locational adjustments

As Storey (1994) suggests, initially larger firms perform better than smaller businesses, but at the most basic level of performance, survival could be viewed as the number of years a firm is in operation. On one level, this could suggest that the most appropriate survival strategy for small firms is growth which ensures longevity in operation. Nonetheless it is also important to note the inverse relationship here, where survival and longevity can also enable growth. Sui and Baum (2014) suggest that growth and with it survival can be gained through internationalization strategies, examining avenues in the export market where Tehseen and Ramayah (2015) aver the benefits of

external integration with the marketplace.

Interestingly Julien (1993) provides a contrasting argument that firms that can and which do survive over longer periods, need not necessarily grow in size. While critical mass is an important element for any business growth, over-expansion can have its own detrimental effect. As such firm survival and longevity could be as much about sustaining a good critical mass and market share as opposed to solely ensuring continuous expansion and growth.

Other forms of growth and business expansion have also been documented by the literature to enable firm success. Higón (2011) discusses the ability for Information Communications Technology (ICT) to contribute in some way to firm productivity with Koellinger (2008) emphasising how e-business technologies are important enablers of firms. Hempell and Zwick (2008) contend that ICT can improve and enable firms to have more flexible organisational structures. The usage of new technologies can enable SMEs to enhance their organisational adaptability and expand appropriately (Russo and Perrini, 2010 and Halebian *et al.*, 2012). Indeed Chibelushi and Costello (2009) and Alshamaila *et al.* (2013) suggest that these have 'enabled' many small firms to not only target their traditional customer base in their locality, but technological advances have facilitated widening of business opportunities.

With the desire for longevity and business survival, SMEs need to change the way they do things and the way they manage themselves in order to be better cater to the marketplace. Kanter's (1985) and Halebian *et al.* (2012) research suggest that SMEs are able to adapt quickly and flexibly to changes in the marketplace innovating to changing patterns of demand, thus enhancing competitiveness (Trott, 2011).

Therefore, the desire for longevity is a vital consideration in the running of the business. Literature in the area suggests a number of potential avenues to enable business longevity, although signposts little on which method will deliver results. What is prevalent though is the desire by entrepreneurs for survival of their firm and a focus towards business longevity.

The literature also highlights how innovating the business type and customer base can also be useful in ensuring SME success. The constant variations and changes in

the marketplace require that firms update and review their approaches to better reflect customer demand as well as current trends. Fluctuations of demand and type of demand are dependent upon environmental forces, which require appropriate innovation for firms to continue to cater to the market.

2.6 Innovation and success

The notion of innovation and its linkage to success is often fraught with complexities and ambiguity on which approaches deliver effective results. Similarly the range and diversity of approaches create difficulties and complications that small business entrepreneurs need to manage. Gray *et al.* (2012) for example contend that the field of research in innovation is quite diverse with different theoretical approaches alongside different ways of defining and measuring innovation.

Innovation is an important element of business enterprise. In the broadest definition innovation includes the ability of firms to change as well as to adapt to external environments to not only succeed but also to be able to maintain a competitive advantage despite ever fluctuating external forces. North and Smallbone (2000) describe innovation to be a firm's ability and desire to assimilate, change and welcome product or service development. Goffin and Mitchell (2010) view innovation as understanding what is required in the marketplace and being able to adapt to customer trends and desires. Bridge *et al.* (2003: p 303-304) describe innovation as the "successful development of competitive advantage" – an important element to corporate entrepreneurship.

The evolutionary process of the business cycle highlights the need to innovate and change in order to continue to attract customers (Freel, 2000). Businesses undergo a process of internal and external change as a product of both its internal capacities and its business environment. The need to innovate allows business to retain its market position and share, extending its life cycle and ensuring business success. Industry innovation as discussed by Porter (1980) and Low and Abrahamson (1997) portray a picture of a constantly changing and fluctuating business environment. Emergent industries, fragmentation, transitional and those that are in decline indicate the complexity of the external business environment. The innovation process

provides a means for business to change, alter and adapt to market trends, customer desires, and technological advances and to remedy the negative impact of new competition (Love and Roper, 2015).

Schumpeter's (1934) very early, yet seminal, definition of innovation included the introduction of new product(s), new methods of production, entering of new markets, new sources of supply and new forms of competition. A taxonomy further agreed upon by more recent work by Porter (1990) who highlights that innovation entails improvements in technology and better/new ways of doing things alongside process and product changes, new forms of marketing and logistics and ultimately concepts of scope. These are reflected by Bridge *et al.* (2003) through their categorisation of innovation to 3 groupings – processes, products and management. The OECD (2013), on the other hand, segments innovation into 4 major areas -

1. Product - A good or service that is new or significantly improved. This includes significant improvements in technical specifications, components and materials, software in the product, user friendliness or other functional characteristics.
2. Process - A new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software.
3. Marketing - A new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing.
4. Organisational - A new organisational method in business practices, workplace organisation or external relations.

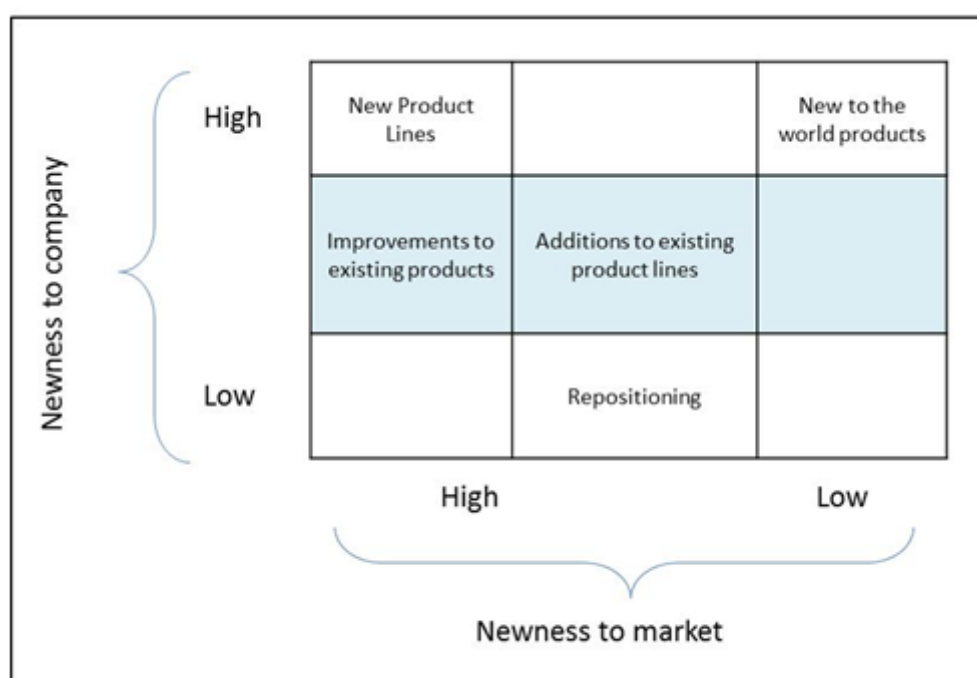
Deakins and Freel (2009) suggest that innovation should not be taken as singular streams of approaches but can often coalesce and be cross-disciplined. Cosh *et al.* (1999) define innovation to emanate from either changes in the product or processes where alterations or updates could prove beneficial to the business. Do *et al.* (2015) suggest the innovation is also driven by the internal capabilities of the firm and not solely the desire to innovate. This indicates that while firms are keen to be creative and undertake new approaches to business, they may not be always be able to do so.

There seems to be some clarity in the drivers for innovation – business needs and the entrepreneur's desire to do so. Even so, the drivers for change are dependent on the

type of business and its locality. These environmental forces will inevitably affect the types, level and desire of SMEs to innovate. Indeed Kanter (1985) and Oke *et al.* (2007) discuss the radical step changes in innovation that small firms undertake. Similarly Deakins and Freel (2009) indicate that the more flexible small firm would not only be more prone to innovate but be more likely to be able to do so quickly.

Cooper's (1993) classification (see Figure 5 below) provides a matrix structure towards how the notion of innovation could be explored as well as the capacities required to do so. It suggests that a mix ground as opposed to highly advanced approaches to innovation is plausible.

Figure 5 Classification of Innovation



Source: Cooper (1993)

Deakins and Freel (2009: p134) provide a definition of innovation in how it “incorporates both creation or discovery aspects and diffusion or utilisation aspects. The difficulty, however, is that novelty is ultimately a relative concept.”

Another clear stream of investigation in the literature focuses on whether it is worthwhile innovating or not. Freel (2000) provides a ‘pragmatic’ categorisation of innovation success as – ‘tried and succeeded’, ‘tried and failed’ and ‘not tried’.

Does innovation equate to success? Freel (2000) and Bridge and O’Neill (2012) are keen to highlight an association or linkage between the two, but is equally careful to

indicate that a causal link is unclear. Freel's (2000) own research on small manufacturing firms indicates that small innovative firms retained higher rates of growth and profit figures per head/employee but is less definitive with other measures of success such as profit margins and absolute profits. Much like Geroski and Machin's (1992) measures of firm performance, the beneficial effect of innovation on small firms is somewhat inconclusive. The size of the firm seemingly affects the overall effect of innovation on firm success. Roper *et al.* (1996), Roper (1999), Wynarczyk and Thwaites (1997) and Moore (1995) indicate a strong positive association between innovation and turnover growth for small firms. The current body of literature has difficulties pinpointing and discerning the positive or negative effects of innovative approaches fully. This is not merely due to the difficulties inherent in the field of SME research or business success, but it lies in the multiple degrees and methods of defining and measuring innovation and success. Gray *et al.* (2012) discuss the variability in current research on what equates to innovation and what needs to be measured or assessed to causally highlight which has benefited the business. Moreover, the measurement of success can be linked to performance – both elements, which in themselves, are as ambiguous as innovation. Macpherson and Holt (2007: p186) contend that within emergent research into entrepreneurship there seems to be “competing themes and directions” for successful innovation.

Pasanen (2006) argues that innovation is an inherent requirement for SMEs. The characteristics of SMEs and their limited resources mean that firms need to be creative and utilise their capacities wisely. Freeman and Soete (1997: p266) add, in rather dramatic fashion, that “not to innovate is to die.” The high levels of uncertainty for SMEs posit that innovative practices provide a highly useful method to ensure success. Taylor's (1997) research, for example, uncovered that high growth medium sized firms were successful because of their impetus to innovate.

Likewise, Barr *et al.* (1992), Barr (1998), Koryak *et al.* (2015), Love and Roper (2015) warn that innovation is often driven by the entrepreneurs desire to do so and be able to spot market opportunities. In this same vein, there is every likelihood that an entrepreneur's ability or inability to uncover opportunities or even set boundaries and limits to firm development would restrict business growth and success.

Seemingly, current discourse provides a relatively clearer answer on the choice of whether to innovate or otherwise. It predominantly indicates a need to remain flexible as well as aware of changes in the marketplace, where innovation is a valuable tool to ensure this business success. Notwithstanding, the ability or want to innovate is strongly linked to the entrepreneur (Gray *et al.*, 2012). Likewise the inability to be dynamic is wholly dependent on the entrepreneur. Highly innovative firms that alter the business model, develop new products, apply new supply chain and logistical approaches or apply new technologies to cater to changing customer demands are only doing so as a product of the entrepreneur's desire and ability.

Traditionally research and development (R&D) expenditure and product developments are often linked to high levels of productivity and growth of the business. Previous literature (Moore, 1995; Love and Roper, 2013 and Hughes, 2002) indicates a strong value of business growth as a benefit of product innovation. Luo (2000) identified that product development can provide a strong offensive strategy in innovating to develop exporting potential. De Brentani (2001) contends that innovations to products involve simple line extensions to minor adaptations/adjustments or on the opposite spectrum radical and discontinuous changes. She (2001) adds that innovation is based on 'degrees of newness' rather than solely innovation and how the measurement of 'newness' is based on the perceptions of the firm itself, the other world or both of these.

Bloodgood *et al.* (1996) are keen to state that a more diverse product range and product differentiation increases the likelihood of success. Cooper and Kleinschmidt (1986) indicate that innovative and new products would inevitably lead to superior performance. Nonetheless Freel (2000) warns that the high costs involved and the investment in R&D inevitably negatively affects retained profits. Indeed Trott and Hartmann (2009) highlight the various issues and contentions that occur with retaining and patenting Intellectual Property (IP). Thus, while there are numerous benefits in innovating, firms and especially small firms, need to operate within their limits. The potential for expensive and extensive funding of R&D may lead to little fruition, with many small firms often being unable to bear such costs.

Levy and Powell (1998) and Ates *et al.* (2013) discuss that firms that innovate can be classified into two profiles – the reactive or proactive. Thus businesses can

‘choose’ to innovate based upon changing external conditions or be proactive and alter their practices based on forecasts and predictions.

Oke *et al.* (2007) amongst others (Caird, 1994; Lipparini and Sobrero, 1994; Simon *et al.*, 2002; Koryak *et al.*, 2015) posit that the innovative process has as much to do with the entrepreneur as the business approach. They discuss, that it is the entrepreneur that provides the catalyst embedding and linking innovation with business operations, effectively driving or limiting innovative endeavours. Bridge *et al.* (2003: p68) similarly highlight that the “enterprising person is often concerned with developing new products, processes or markets...have more originality than others and are able to produce solutions that fly in the face of established knowledge.”

There is a need to innovate and change with the times but no clear consensus on what needs to be done when and which approaches are more successful than others. Instead current discourse suggests being aware and considerate of potential options to be best to ensure firm success. Porter (1990: p45) is keen to emphasise that innovation provides firms with a valuable opportunity to “create competitive advantage by perceiving or discovering new and better ways of competing in an industry and bringing them to market.”

2.7 The Entrepreneur

Storey (1994) discusses the important role that the entrepreneur plays in ensuring SMEs are successful and indicates that his or her level of education is a key factor. Gaskill *et al.* (1993) builds on the prominence of the entrepreneur by indicating that poor management is often a strong cause of failure. Soriano and Castrogiovanni (2012) suggest that entrepreneur education, experience and their ‘inner circle’ are often linked to firm success.

Littunen (2000) suggests that while understanding key stakeholders can lead to longevity and success for SMEs, being unable to identify, build strategic relationships and cooperate with them is often a route towards the demise of the business. Reid (1991) contends that offering a wider product range is an approach to enhance engagement and interaction with stakeholders. Catering to a wider range of

tastes and preferences captures a wider market share, ensuring a better likelihood of survival.

Audretsch (1995) does not incorporate any variables which directly reflect the human capital possessed by the owner. Yet given the relative smallness of the businesses, the abilities of the owners will have an important influence on the progress of the business. Owners have at least three types of capital. The first may be described as their social capital. This captures their networks and contacts, which in turn affect their ability to obtain supplies and services and to develop their markets. Second, there is their human capital. This consists of the management and financial skills, experience and abilities that owners bring to their businesses, including the capacity to develop appropriate business strategies. Attention has already been drawn above to the potential importance of differences in motivation as an explanation of variations in firm growth. Third, the level of education may also exert some influence although empirical findings on this topic are somewhat mixed (Storey 1994). This is ratified by Millan *et al.*'s (2014) research suggesting that entrepreneurial activity is benefited by education. Yet the complexity of this notion is further advocated by Mayer-Haug *et al.*'s (2013) recent study which indicated a weak relationship between education and performance of the firm.

A number of studies have found a positive and significant effect, but this is not a universal finding. In Johnson *et al.* (1999), there is a hint of a negative effect - some owners may perceive themselves overqualified for some forms of own account activity, and this in turn may lead to frustration which is inimical to growth - but such a finding is unusual. Experience may be captured by a range of variables, such as age (which is likely to reflect general experience), and the level of 'own account' experience.

Interestingly, SMEs which are under sole control of the entrepreneur are more likely to be nimble and able to respond quickly to market demands ensuring survival and success of the firm (Williams, 2014). This suggests that the entrepreneur has an important role to play in the operation of the business, especially if the firm is under their sole control.

As such while the literature around the subject of measures of success is complex and fragmented, the role of the entrepreneur as its key driver has broad support in the

literature (see Deakins and Freel, 2009; Love and Roper, 2015; Koryak *et al.*, 2015). In reviewing the effects that the family has on the entrepreneur, Powell and Eddleston (2012: p265) are keen to indicate how the family could contribute to “heightened creativity that helps entrepreneurs’ ability to engage...to develop an optimistic bias”. Powell and Eddleston (2012) discuss the potential for ‘work-family enrichment’ to further benefit SMEs and perhaps the innovative process. They contend that the “resources generated in one domain, work or family, are applied in the other in a way that benefits the other domain” (Powell and Eddleston, 2012: p263). The authors are not alone in identifying these benefits with Wayne *et al.* (2007) highlighting how families can facilitate and/or enhance (Ruderman *et al.*, 2002) business success. Experience and knowledge of personal networks and familial contacts have always played a role and valuable influence on entrepreneurial decisions. Indeed Powell and Eddleston (2012) and Ruderman *et al.* (2002) are keen to emphasise how the family-to-business model can have an equally effective business model to the more common business-to-business ventures.

Bridge *et al.* (2003) place importance on the desire of the entrepreneur and their ‘risk-taking propensity’ and posit that medium risk entrepreneurs and those that take calculated risks tend to perform better and have a higher probability of success. Rey-Martí *et al.* (2015) identified in their study how risk propensity in female entrepreneurs is often linked to a desire to ensure business survival. Earlier work by Bedeian (1990) argues that organisations need not only react to their external environment but can also create or enact them.

The literature indicates a robust linkage between the role of the entrepreneur and the overall ability for the business to success. It suggests that education background, knowledge and the availability of networks of information affect and can add a suitable advantage to a firm’s ability to become successful.

2.8 Finance

Finance is essential for all types of firms within different sectors and at different stages within their life cycle (Cowling, 2010). Firms at the growth stage will require greater amounts of finance relative to a firm that is stagnant with little motivation to

grow. This is evident from a study by Hussain *et al.* (2006), who found that at early stage of business, SMEs within the UK rely predominantly on internal finance, whilst after five years of trading most SMEs depend on financial institutions for their borrowing needs. As Burns (2010) points out, the provision of finance is vital if firms are to grow and make the most of their potential. Given the current economic conditions and the challenging business environment, firm finance is a prominent issue (Gray *et al.*, 2013).

This suggests that finance and success are intertwined in the operation of the firm. The ability to fund changes or weather the adverse external forces is vital for SME survival. Nonetheless, the body of literature continues to indicate the difficulties in attain sufficient funding. BIS (2015c) identified obtaining finance and cash flow as two of the main obstacles to business success.

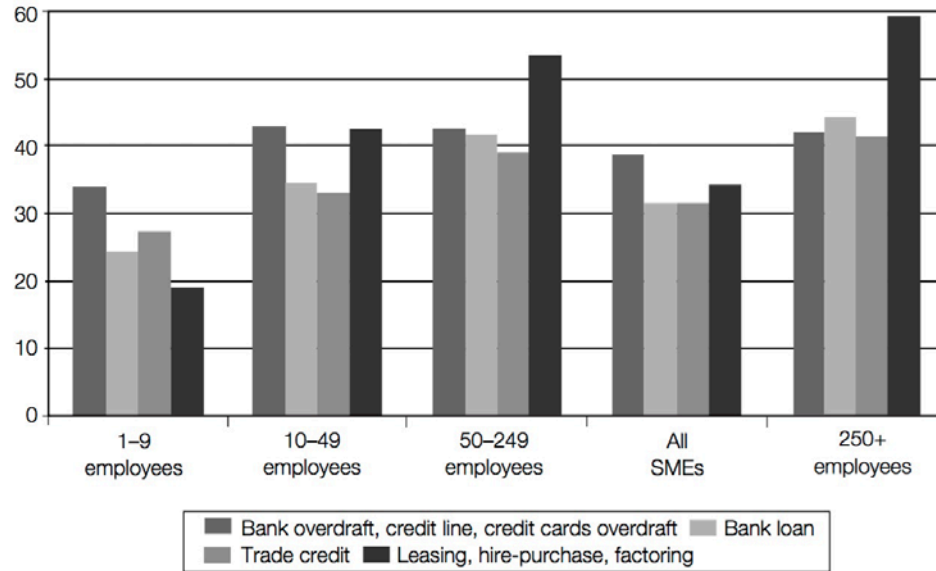
Indeed Leroy *et al.* (2015) indicate how cash flow or the lack of it can lead to forced bankruptcy. More interesting is how financial considerations are made as a product of ‘generational’ factors and the influence of the family (Westhead *et al.*, 2004, Leroy *et al.*, 2015).

Nonetheless it should be noted that the traditional concerns over a lack of funding (Hussain *et al.*, 2006; Westhead and Wright, 2000) are less founded in the current era (Williams, 2014; BIS, 2015c). It was commonly held that SMEs were disadvantaged owing to restrictive and limited sources of funding with highly bureaucratic processes often hindering access to funds. Similarly, the sources of the funding were dominated by banks, financial institutions or venture capitalists (Mason and Harrison, 2000; Donckels, 2000).

More recently (Williams, 2014) there have been suggestions that the demise of the firm as a product of a lack of a finance is less true. BIS (2015c) for instance, identified that 71% of all firms that sought some form of funding received it. This provides some factual data on the notion of finance and its availability. It is worthwhile to note the segmentation of SMEs to receive funding, suggesting other factors that affect access to funding. Micro seems are in a greater disadvantage with 42% likely to face difficulty in attaining funding. This compared to 57% for both small and medium firms (BIS, 2015c). These are further reflected in studies of SMEs

in Europe, where different sources of funding are attained by different firm sizes (see Figure 6).

Figure 6 Different funding streams split by firm size



Note: Over the preceding six months; percentage of respondents; survey conducted from August to October 2013.

Source: European Commission (2013a).

Gray *et al.*'s (2013) report into financing SME indicates that the majority of firms that seek funding do receive it (74%). More specifically, in the funding of SMEs through bank loans (a majority source as discussed below, see figure 8), the majority of SMEs are successful in its application and receipt. Udell (2015) for example discusses the vast number of concerns that plague the issue of finance, citing problems with current streams and channels of finance alongside the inevitable existence of a funding gap. Rostamkalaei and Freel (2014) add to the debate by researching the 'cost' of bank loans and very aptly surmise that banks are not funders of risk.










Nonetheless, even with these considerations in mind, the different sources of funding are vital in the review of measures of SME success. Deakins & Freel (2009), for example, suggest that the principal sources of finance available to an entrepreneur are;

- *Advances from banks*
- *Equity from venture capitalist and informal investors &*
- *Short term trade credit*

Hussain *et al.* (2006) highlight the reliance of SMEs on the savings and informal means of financing, focusing on personal sources of finance (Cosh and Hughes, 2000) as a short term approach. Interestingly this trend is diminishing, perhaps owing to increased government intervention in access to funds. BIS (2015c) display loans from family to be reasonable in its surveys of 2010 and 2012, where more recently this figure has fallen to less than 0.5% (see figure 7).

Nonetheless, the dominant sources of SME funding have not changed by much, with a prevalence of bank loans (48%), overdrafts (21%) and grants (12%).

Figure 7 Types of Finance Sought 2014

	SBS 2014		SBS 2012	SBS 2010	ASBS 07/08
(n=)	1074		1409	1193	2247
	%		%	%	%
Bank loan	48		48	40	44
Bank overdraft	21		35	35	26
Grant	12		7	9	7
Leasing or hire purchase	9		8	9	10
Mortgage	5		3	6	7
Factoring/invoice discounting	2		6	3	1
Crowd funding/P2P loan	1		n/a	n/a	n/a
Crowd funding/P2P equity	1		n/a	n/a	n/a
Loan from family/business	*		3	3	*
Credit card finance	1		3	1	n/a
Equity finance	*		2	2	2
Loan from a CDFI	*		*	1	n/a
Mezzanine finance	*		*	n/a	n/a

Base = all SME employers that applied for finance in the last 12 months.

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant at the 95% confidence level for SBS 2014 against SBS 2012 at the 95% confidence level. H6. Multiple answers allowed at this question.

Source: BIS (2015c)

Interestingly, there exists a trend for key sources of finance to emanate from bank loans and bank overdrafts with a percentage of 39% and 26% respectively in June 2012 (see table 4). Leasing figures were a high of 28% in December 2009 but have since become more stable at 14% in June 2012.

Table 4 Types of finance sought – trends 2012								
	June. 2012	Feb. 2012	Nov. 2011	Aug. 2011	Feb. 2011	Dec. 2010	Feb. 2010	Dec. 2009
Base = All who tried to obtain finance in the last 6 months	n=95	n=200	n=99	n=113	n=128	n=108	n=121	n=105
	%	%	%	%	%	%	%	%
Bank Loan	39	44	41	35	36	39	46	31
Bank Overdraft	26	22	22	23	25	18	33	24
Leasing or Hire Purchase	14	17	17	17	12	18	10	28
Grant	11	6	11	11	9	12	2	2
Mortgage for Property Purchase or Improvement	7	3	5	9	5	8	11	3
Loans from Family/Friends etc.	2	1	4	*	6	0	6	0
Factoring	1	3	*	1	3	1	4	*
Equity Investment	*	2	7	*	1	3	*	1
Loan from a CDFI	0	0	0	0	4	1	0	0
Government Guaranteed Loan/VAT Fund	0	0	0	0	1	1	*	1
Credit Card Finance	0	*	0	0	0	0	2	0
Figures in bold are statistically significant changes at the 95% confidence level between the June and February 2012 Barometers. * = a figure which is more than 0%, but less than 0.5% BIS(2013) Business Barometer June								

The economy was often cited as one of the consistent reasons for SME failure (Hussain *et al.*, 2006; Leroy *et al.*, 2015; BIS, 2015c). This suggests that weathering the negative effects of the marketplace is a key concern for SMEs. This concern is inevitably linked to the sources and availability of funding, which becomes more difficult in challenging times. The Bank of England BoE (2009) identified that July 2009 presented the weakest flow of total net lending to UK businesses since the monthly series began in 1998, furthermore, finance remained more constrained for SMEs. During the recession (BIS, 2009), 20% of SMEs sought finance from April 2009 to September 2009 with 42% being unsuccessful in obtaining any finance. This shows a small drop in finance sought, but a greater proportion unsuccessful in

obtaining the necessary finance. Ultimately the notion of finance is an important variable in the overall success of SMEs.

2.9 Reasons why SMEs fail

Gaskill *et al.* (1993), Berryman (1983) and Carter and Van Auken (2006) discuss a wide plethora of reasons why SMEs fail. Often bad management, leadership and the entrepreneur's inability to lead the business in a direction that is successful are viewed as potential causes of failure. Seminal work by Stinchcombe (1965) suggests that firms fail because they lack internal efficiency and external legitimacy. Williams (2014) contends that traditional assumptions are that a lack of resources has led to firm demise. Yet Carter and Van Auken (2006) posit that internal failures are not the sole reasons for business demise. Instead external forces can and often do play a stronger role in affecting the overall success of SMEs. Concerns such as growing competition, changing consumer demands and the ever-fluctuating commercial dynamic within a locality can affect businesses negatively. Hustad and Olsen (2014) indicate that firm failure is linked to its inability to exploit and utilise its critical success factors, in essence, not doing what it does well.

Evangelista (2005) identifies that firms can also fail if they not consider growth options appropriately. She suggests that a firm's unfamiliarity of the marketplace and the inability to gain a competitive advantage through growth are the likely causes of failure.

There are several definitions of business failure (see e.g. Watson & Everett 1996a; 1993). Firm failure has been described as bankruptcy, insolvency, liquidation, death of owner, deregistering, discontinuance, cessation to trade, closure, and exit (e.g. Storey 1994; Bruno *et al.*, 1987; Ahmad and Seet, 2009; Williams, 2014). These causes or definitions overlap each other to some extent (Sten, 1998), and they may have different meanings in different countries. As a result of this conceptual pluralism, comparisons between results of previous studies of failure are difficult.

Storey and Greene (2010: p167) define business closure when "a transacting entity stops its activities and does not transfer its ownership to another business and is independent of an existing business." Sten (1998) provides a different definition of

closure and views failure as when the owner has no other choice but to close the business. Beaver (2003) highlights the plight of a clear understanding or definition of closure with a tendency to associate business closure as an effect of business failure, where in reality many failed enterprises close and re-open in the future.

Indeed in his own research Storey (1994) identifies 11 factors that can contribute to business failure. They were related to size, age, ownership, sector, past performance, macroeconomic conditions; people/management, location, businesses in receipt of state subsidies, firm type and 'if it were ever so'. Ma *et al.* (2014) suggest that managerial incompetency is often to blame for firm demise, while Watson (2012) indicates that a firm's ability to be successful by its very approaches reduces its potential for failure. A lack of managerial competence, skills and experience was similarly an area of concern highlighted by Lee *et al.* (2012).

Gupta *et al.* (2014) build upon the notion of the firm and posit that it is SME size that affects propensity for success, with micro firms being the most at risk. Does a lack of critical mass then lead to failure? Ucbasaran *et al.* (2010), Ejrnaes and Hochguertel (2013) are definite advocates of this statement, indicating that the ability to adsorb shocks and unanticipated costs would ensure business survival. Williams (2014) suggests that it is a rather obvious assumption where a positive relationship between size and firm performance exists.

Table 5 11 Factors that contribute to firm failure

Size	Failure rates are linked to size with a strong inverse relation. Firms with lower employee numbers were more likely to fail than those with high staff employment.
Age	Increasing age of firms was associated with lower failure rates.
Ownership	Strong embedding of ownership with the firm was linked with lower failure rates.
Sector	Different failure rates exist in different sectors. The industry/sector that the firm operates determines its success or failure.
Past performance	Growth through a number of avenues (employment, size) enables survival.
Macroeconomic conditions	Some types of failure can be linked to changes in macroeconomic policies.
People/management	The characteristics of the individual can have an effect on firm success. For example previous experience, education, potentially even age or gender.
Location	Geography and location within the country can contribute to firm failure.
Businesses in receipt of state subsidies	Due to the nature of firms being funded, survival rates were expected to be lower.
Firm type	The setup and structure of the firm seems to be associated with different rates of success. Suggestions as to the flexibility of the business structure and the related motivations of the entrepreneur. Franchise firms for example seem to have added impetus.
And it was ever so	In reality not all firms will survive in the long term. Instead it is more likely that only a handful will do so even though the majority strive for it.
Adapted from Storey (1994: 92)	

While these different forces affect businesses, Storey (1994) contends that previous discourse in the area should be viewed with caution. Previous research on why businesses fail does not clearly discern the causal forces that lead to failure, but rather identifies the various issues that more consideration should have been paid to ensure success (Williams, 2014). Indeed Boyle and Desai (1991) suggest that clear distinction is hardly ever made between the symptoms and the causes of failure. Chang *et al.* (2009) indicate that failure in itself is difficult to define as there exist no formal reporting approach for small firms. Often transfer of firm ownership, change in name or discontinuance are clustered together as firm failure (Lee *et al.*, 2012).

Everett and Watson (1998) add to this by highlighting the flaw in viewing discontinuity of a business as similar to business failure. Businesses can wind down as a conscious choice to discontinue as opposed to being a product of a mitigating or detrimental factor.

Nonetheless studies such as Chak (1998) indicate a lack of resources as a cause of failure, while Watson (2007) suggests usage of information from incorrect sources to affect a firm's chances of success. Ucbasaran *et al.* (2013: p176) provide an interesting aspect of firm demise, where the entrepreneur exacerbates failure by "escalating commitment to a losing course of action" delaying appropriate remedial action till it is too late.

While Mathew (2010) discuss the importance that healthy finances and budgeting has on ensuring SMEs success, Smallbone (1990) and Labich and de Llosa (1994) provide a contrast on firms failing as a product of undercapitalisation and mishandling of debt loads. Lee (2014) contends that firm failure is not always linked to factors that are within the control of the firm but are rather an effect of external forces such as the economy. Ucbasaran *et al.* (2013) as well as George (2005) further highlight the importance of financial slack as a key factor to the prevention of firm failure.

Nonetheless Storey (1994: p89) is keen to emphasise that "not all loss-making firms cease to trade; it also appears to be the case that the firms that make the business loses do not necessarily exit first; profitable firms may also exit the market." Williams (2013: p2) agrees and suggests that failure is not just the opposite of success but rather "a complex activity that needs nuanced understanding."

Therefore, while financial health is an important indicator and potential measure of success, there are fallacies and limitations to its usage. Storey (1994, p89) provides one approach to determine closure as dependant “on the relative net cost of continuance versus immediately closure.” William’s (2013) research posits that failure should not be viewed as a function of a lack of resources. Instead the likelihood of failure arises from the inability to control forces that are harmful to the firm.

It is important to note that not all firms that go out of business do so as a result of failure, and those that do not should be separated from failures. For instance, according to Thompson (2001), ultimate business failure happens when a business is liquidated or sold. However, a distinction should be made between two kinds of situations: optional and non-optional. When there are no options, the discontinuance of the firm or business can be defined as failure: in other cases the situation can be labelled as exit. Atkinson and Hurstfield (2004) chart the key obstacles to firm success providing an overview of the major issues that have led to potential firm demise. The major elements are around the issues of cash flow, taxation, regulations, competition and most importantly the economy. These too have different effects based upon the size of the SME.

These issues are reflected in the annual survey of small businesses in the UK (BIS, 2015c) where the economy was highlighted by 59% of respondents as the key obstacle to their firm. Interestingly current trends related to SME failure have not altered much with the dominant issues in 2014, reflecting those in 2004. For instance, taxation, competition and cash flow still retain a strong prevalence through the past decade. Interestingly, fewer responses were recorded for ‘no obstacles’, where the figure in 2004 was 9.7% with the 2014 response being 5%. This suggests an increased number of hurdles for SMEs in their search for funding. Notwithstanding, BIS (2015c) also suggests a major issue with red tape or bureaucracy as an obstacle to success (54%).

From current discourse, it seems that there is not only difficulty but complexity in defining business failure especially with the little practical and quantifiable approaches that accurately reflect and measure business demise. Indeed, “failure can no longer be regarded in terms of the traditional, inflexible paradigm of cessation of

trading” (Beaver, 2003: p119). For the purposes of this study, a failed firm is defined as a firm which has gone into liquidation, i.e. it has ended its business and left behind unpaid creditors. On the other hand, a business which is sold, for example, in order for the entrepreneur to realise a profit, should be viewed as a success rather than a failure.

2.10 Rurality

Research by Curran and Storey (1993) and Smallbone *et al.* (1993) alongside more current literature (Akgün *et al.*, 2011) indicate how entrepreneurs that setup their firms in rural locations have had some linkage to the local area beforehand, either through living or working there previously. Similarly a large majority of ‘in-migrant’ (i.e. entrepreneurs who have arrived from other parts of the country) entrepreneurs have had some experience of working in rural locations and have then gone on to start their businesses. Keeble (1992) adds credence to this finding by indicating how a much higher proportion of rural SMEs are in-migrant entrepreneurs. More recent research by Lee and Cowling (2013) and Kalantaridis and Bika (2006) further advocates the importance that rural SMEs have on the local economy.

Indeed a number of authors (Keeble *et al.*, 1992; Curran and Storey, 1993; Davidsson *et al.*, 2005; Sanders and Galloway, 2012) have discussed the distinct characteristics of firms from a rural geography and suggest how each has embedded themselves within their locality. They discuss the detailed understanding of the make-up of customers, the firm’s ability to create and support jobs alongside the ability to drive creative forces within their communities (Mason, 1991; Rizov and Walsh, 2011; Lee and Rodriguez-Pose, 2013). Lee and Rodriguez-Pose (2013) for example discuss how rural firms have been instrumental in the development of innovation and the spurring of businesses around creativity.

Williams and Jones (2010) suggest that geography is vital for business success, identifying that rural firms were more likely to survive. They indicate that less competition for customers and sources of funding in comparison to more densely packed centres reduces the pressures on rural firms. Quayle’s (2003) research on rural SMEs in Wales identified how good supply chain management could alleviate

all other issues of leadership, strategy and waste that have a negative effect on small firms.

Moreover, as observed by Macpherson and Holt (2007: p181) “demographic influences such as a rural location will not necessarily be a disadvantage, provided the firm has access to suitable networks through its internal organisational capacity.”

Galloway’s (2007) concerns for rural firms are that they in particular could suffer from a lack of networks of communication and engagement with the marketplace, citing slow Internet connectivity as a key limitation. An issue addressed by Lord Young (2013) as he highlights the growing importance of rural firms in the modern era with vast government funding (£530million) earmarked for investment in broadband coverage.

McElwee and Smith (2014) nonetheless chart the importance that rural firms and more importantly how rural entrepreneurship requires specific business strategies to enable a successful endeavour - in essence, the existence of a rural entrepreneurial attitude to business management and operations. McElwee and Smith (2014) posit the similar importance (as discussed in earlier chapters) of elements such as innovation, investment and growth in employment as clear drivers of rural firm success.

As such, there is growing impetus and research into SMEs and in particular those that operates within a rural geography, even with differing views of what equates to rurality (Blunden *et al.*, 1996). It is because of these differing views of what rurality actually is that have created problems in trying to provide a standardised definition (Hoggart *et al.*, 1995; Moyes *et al.*, 2012; McDonagh, 2013). Thus, a singular and generic definition of rurality is often absent. Cloke and Park (1984) for example suggest that definitions of rurality are usually narrow and utilised for specific functions rather than to provide taxonomy for wider use. Similarly the idea of what equates to the rural countryside can differ from individual to individual and context to context.

Curran and Storey (1993) highlight a strong altering factor in the rural landscape, suggesting the impact that ‘outsiders’ or in-migrants may have on the local economy. Indeed Ilbery (2014) charts the growth and expansion of the rural economy, its

industrialisation, usage of tourism as a marketable resource and increasing number of in-migrants.

This growth in individuals to the countryside is not a new phenomenon (Groves-Phillips, 2013; Wong, 1998; 2001) where newcomers to the region have brought benefits and positivity to the locality. The growth in population supports and fosters the local economy by creating a larger market and more dynamic demand. Similarly, the ‘birth’ of new business further benefits the area (Keeble, 1993; Illouz-Winicki and Paillard, 1998; Groves-Phillips, 2013). In-migrant entrepreneurs not only seek a better quality of life but may aid in the creation of a better community and local economy (Westhead, 1995), expanding the pool of skilled labour (Bosworth and Atterton, 2012). Akgün *et al.* (2011) provide evidence that newcomer entrepreneurs (in-migrants) are relatively older, better educated and tend to develop businesses in non-agricultural sectors than native entrepreneurs. Their contribution is predominantly on the stock of physical (man-made) capital and is attracted by the rural lifestyle. Interestingly, a large number of in-migrants would have had some ‘dealings’ within a rural area before starting their business, either having previously lived or worked there once before (Curran and Storey, 1993; Smallbone *et al.* 1993). This suggests a strong return to familiarity as precursor to deciding on appropriate locations for business start-up.

Arguments for rural innovation have similar complexities. A number of studies have suggested that rural SMEs are more innovative, although as in the case of performance data, the results reveal some variation in the pattern over time (North and Smallbone, 2000). The nature of the comparison can also be affected by the characteristics of samples and the areas from which they are drawn. For example, the SBRC (1992) survey, covering the period 1987-90, found appreciably higher innovation rates in rural firms compared with their counterparts located in conurbations for new products/services, new production processes, new supply and storage systems and new office systems, which were associated with urban-rural contrasts in employment growth performance. Deakins and Freel (2009) and Goffin and Mitchell (2010) contend that larger firms have not only more capital and finances to be able to be innovative, but essentially have better critical mass and resources (networks, knowledge, logistics) to cater to the marketplace.

Within the rural context, technological advances have also enabled SMEs to expand on their marketplace and indeed their options in marketing and market development. SMEs are no longer limited by their geographic or rural locations but rather can widen their marketplace through new technologies or innovation. Approaches similarly espoused by Higón (2011), Taylor and Murphy (2004) and Pavic *et al.* (2007).

For example, Taylor and Murphy (2004) and Pavic *et al.* (2007) discuss the growing application of online models of business and business marketing to exploit current trends of Internet shopping. Jamali *et al.* (2014) suggest of a similar plight in Malaysian technology SMEs with Parry *et al.* (2014) indicating the importance of balance to innovate while still delivering customer demands. New mediums of supply chain and delivery logistics as well as increasing focus on networking through social networking, professional and business ventures, cloud computing (Alshamaila *et al.*, 2013; Pavic *et al.*, 2007; De Brentani (2001). This has facilitated a change and adoption of the traditional shop-floor towards understanding the merits of the virtual world. To a certain degree, not only are firms required to embed some form of Internet presence but they have also had to rethink their traditional supply chain and logistics to better adapt to modern demands. Indeed Khazanchi *et al.* (2007) highlight improving production methods, services and administration as noteworthy examples of innovating the business model to help engage business success in the long term.

Indeed North and Smallbone (2000) highlight that SMEs were actively involved with market development expanding towards non-local geographical markets. Moreover innovation has expanded away from products and services towards more socially and environmentally friendly eco-innovation. There have also been political initiatives to drive rural firms. Huggins and Williams (2009) for example, discuss the targeting of returning migrants to help promote rural enterprise and drive economic contributions to the area. Similarly, they discuss how enterprise policy is aimed at underrepresented groups to try to stimulate progress as well as tackle barriers to enterprise. This suggests that there is an opportunity for the study to contribute to practice.

Rurality is a catalyst to the desire to be visibly linked to the local community and the impact on the area (Martin *et al.*, 2013). This does support earlier work by Smallbone and North (1999) in that rural SMEs are not disadvantaged by their rural location.

2.11 Definitions of Rurality

There are three main approaches, which have been used to understand rurality. The approaches selected for considerations are: descriptive definitions, rural areas as distinctive locations, and the social construction and representation of rurality. The examination of the context of rurality is vital as it frames the different measures of success as discussed in earlier sections of this chapter.

Much has been previously written on the descriptive definitions of rurality with the dominance of rural being viewed as observable and measurable construct (Halfacree, 1993). Shucksmith (1994) for example, suggests that rurality is a concept within the ‘eye of the beholder’ where individuals try to find a fit for definitions of rurality. These are interesting notions as it suggests that rurality is not only a concept but a tangible construct that is physically there. This ideology is where the basis of much of the rural landscape seems to be based upon.

A dominant example of this definition is that from research by Cloke’s “index of rurality for England and Wales” (Cloke, 1977, 1978; Cloke and Edwards, 1986), encompassing variables such as employment, population, migration and land use. Much of this is reflected in modern day definitions of rurality. For example, the OECD (2011) defines rurality as streams of:

- **Predominantly Urban** - (PU), if the share of population living in rural local units is below 15%;
- **Intermediate** - (IN), if the share of population living in rural local units is between 15% and 50%;
- **Predominantly Rural** - (PR), if the share of population living in rural local units is higher than 50%.

McElwee and Smith (2014) suggest that rurality can be defined as a geographic variable using metrics such as regional productivity and population. Nonetheless Tunberg (2014) and Lee and Cowling (2015) contend that what constitutes rurality is often left to the individual research focus. Table 6 provides an overview of the various different aspects which have been used to provide descriptive definitions of rurality.

Table 6 Descriptive Definitions of the Rural	
Statistical	Cloke, 1977; 1978; Cloke and Edwards, 1986; Openshaw, 1985; Harper, 1987; Donnelly and Harper, 1987
Administrative	Stevens, 1946; Lassey, 1977; OPCS in Openshaw, 1986
Built-up Area	Cherry, 1976; Denham, 1984; OPCS, 1986; Craig, 1987
Functional Regions	Coombes <i>et al.</i> , 1982; CURDS, 1983-1984; Champion and Coombes, 1984; Champion <i>et al.</i> , 1984, 1987
Agricultural	Robertson, 1961; Newby, 1977, 1978, 1979, 1980, 1986; Newby <i>et al.</i> , 1978; Newby and Buttel, 1980; Friedland, 1982; Gilbert, 1982
Population size/density	Clout, 1972; Lewis, 1979; Urry, 1984; Fothergill <i>et al.</i> , 1985
Source: Halfacree (1993: p24)	

There are a number of limitations and fallacies in the use of descriptive definitions of rurality (see Openshaw, 1985; Halfacree, 1992; Henry and McElwee, 2014). First, space is not appropriately contextualised within a rural perspective. The nature of a rural region sometimes provides more space and room for growth where in others can be restrictive to the business. Halfacree (1993) also indicates the descriptive definitions are often highly quantified and dominantly deductive in understanding. Moreover descriptive definitions only explain what is rural but do not clearly demarcate what is or what is not rural. Indeed, Tunberg (2014) suggests that knowledge in the field currently takes for granted assumptions which may or may not apply. For example, in her study, Tunberg (2014) identifies that literature is often dominated by outcome concerns and technologies which are more prevalent in urban

firms. Moreover given the changing context of rural firms, such as the growth of technology and eco-focus (Martin *et al.*, 2013), descriptive definitions are relatively simplistic.

Alongside these fallacies, the descriptive definition of rurality does not consider the individuals and people living in those areas, often ignoring social structures and networks. The definition provides some interpretation of rurality but not the interpretation of those living there, where regional differences and community values are often lost.

Shucksmith (1994) and Sturzaker and Shucksmith (2011) indicate that there has been an emphasis on trying to create a conception of rurality and its distinctiveness (Duncan and Savage, 1989; Henry and McElwee, 2014, McElwee and Smith, 2014). They contend that the majority of rural studies view each region as similar with little differentiation between one and the other (Hoggart *et al.*, 1995; Tunberg, 2014; Lee and Cowling, 2015). In fact, rural communities are often very distinct and unique.

Hoggart (1990) indicates that where causal forces exist at a local level, and if these are distinctive to that rural environment, is where rurality as a distinct notion exists. This is especially true considering the growing body of research indicating regional differences in the drivers of SMEs management (see Storhammar, and Tohmo, 2014; Blanchard, 2015; De Clercq *et al.*, 2014; Brooker and Joppe, 2014). Bosworth (2012) and Moyes *et al.* (2015) for example suggest that for a firm to be rural it needs to serve a rural population, sell a 'rural' product and be located in a rural area. This seemingly advocates Hoggart's (1990) position that 'distinctness' is key to the examination of rurality.

Similarly, Hoggart (1990) and Lee and Cowling (2015) further suggest that each rural area is unique, hence generalisation is often difficult. Therefore, it is important to be aware of the distinct features of the study area. For example, the local structures that exist and the effect and influence this has on entrepreneurship in the locality (McElwee and Smith, 2015).

Thus, not only is rurality an important area of research but the inherent complexity in understanding what it represents, suggest a pertinent field for research. Hoggart (1990), Tunberg (2014) and Lee and Cowling (2015) argue that researchers should

be clear from the outset about what they are studying and utilise the most appropriate definition to carry out their work.

Table 7 Definition of Rural in England

1. Major Urban: districts with either 100,000 people or 50 percent of their population in urban areas with a population of more than 750,000.
2. Large Urban: districts with either 50,000 people or 50 percent of their population in one of 17 urban areas with a population between 250,000 and 750,000.
3. Other Urban: districts with fewer than 37,000 people or less than 26 percent of their population in rural settlements and larger market towns.
4. Significant Rural: districts with more than 37,000 people or more than 26 percent of their population in rural settlements and larger market towns.
5. Rural-50: districts with at least 50 percent but less than 80 percent of their population in rural settlements and larger market towns.
6. Rural-80: districts with at least 80 percent of their population in rural settlements and larger market towns.

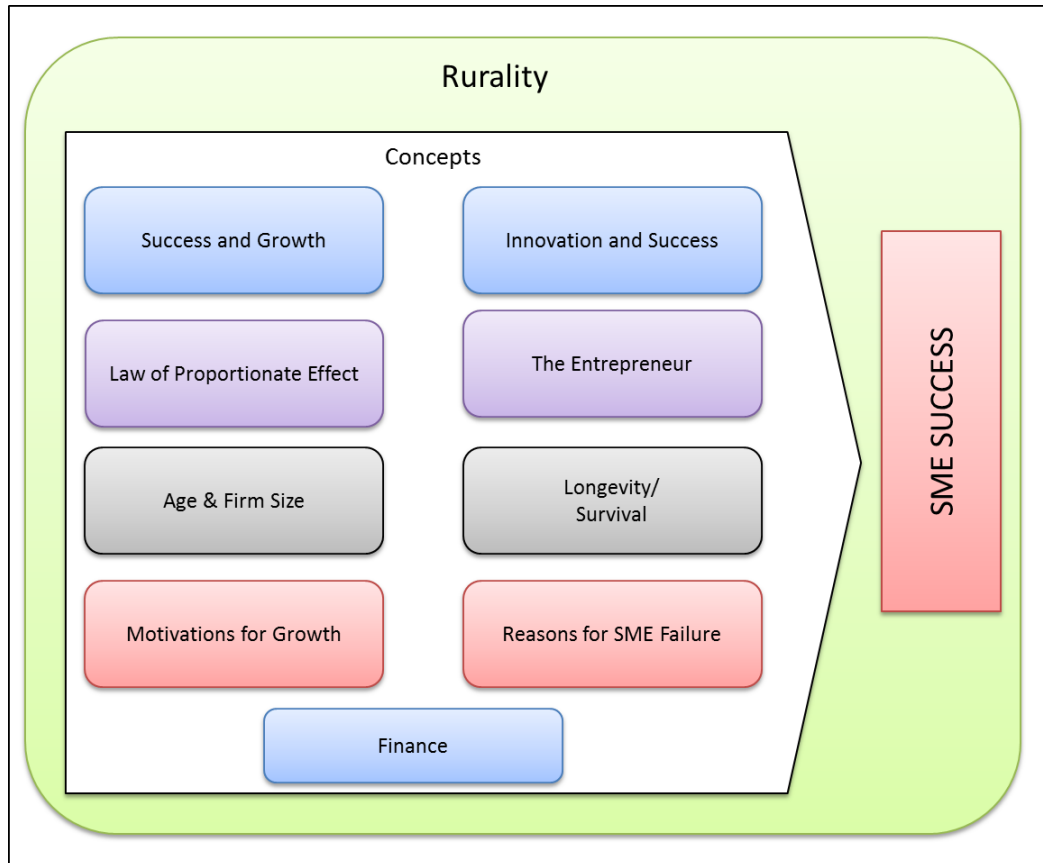
For the purposes of this thesis we utilise the definition provided by DEFRA (2012) within an English context (see table 7). Usage of this definition is consistent across a number of studies in rural enterprise (see Bostworth and Newbery, 2015; Henry and McElwee, 2014; McElwee and Smith, 2014; Martin *et al.*, 2013) and thus provides a reliable framework for the purposes of this study.

2.12 The development of research themes

A review and survey of current literature has signposted areas where further examination and research could be undertaken. The prevalent issues of growth, size, longevity, innovation and failure have informed the development of the research themes of this study. The body of literature suggests that these different elements could and do have an effect on business success.

These different thematic issues are reviewed within the sphere of rurality with each element potentially contribution to SME success. These dominant issues have been developed into the conceptual framework in Figure 8 below. It suggests that the key elements of growth, innovation, the entrepreneur, firm age, longevity and finance are dominant factors within current discourse that affects rural SME success.

Figure 8 Conceptual Framework of the Study



With this in mind, the study seeks to examine these issues and their effect on rural SMEs and is reflected in the main research themes to be tested in this thesis.

- **Research Theme 1** – Rural SME success and survival is linked to the entrepreneur’s background and ability (This theme considers the age, education, level of ownership and previous experience of the entrepreneur).

Storey (1994), Gaskill *et al.* (1993), Bridge *et al.* (2003) and Soriano and Castrogiovanni (2012) suggest that the entrepreneur plays an important role in ensuring the firm’s success. This theme seeks to review demographic information on

the entrepreneur to evaluate if differences in background such as age, education and experiences affect the success of SMEs in a rural location. Utilising data drawn from both secondary literary sources as well as statistical testing on questionnaire data, the study hopes to identify if the background of the entrepreneur can limit or be a catalyst to business success.

- **Research Theme 2** – Longevity of an SME is an indicator of success

Dobbs and Hamilton (2007) among others highlight (Lu and Beamish, 2001; Sapienza *et al.*, 2006; Stuart, 2000; Ruzzier *et al.*, 2006; O'Gorman, 2001; Barringer and Jones, 2004) how longevity is an indicator of success, where a firm's ability to survive can be viewed as successful and as such posit an interesting question in relation to rural SMEs.

- **Research Theme 3** – Certain characteristics of SMEs in a rural location contribute to their success

A number of variables such as approaches to innovation, business direction and the number of employees are examined here to identify how these affect SMEs operating within a rural location. This theme builds on additional issues highlighted in the literature (see Storey, 1994; Smallbone *et al.*, 1993; Coad, 2013; Falk, 2008; Gray *et al.*, 2012; McAdam *et al.*, 2014) and seeks to evaluate other variables that could be related to SME success.

- **Research Theme 4** – Finances and financial planning are linked to SME success in a rural location

The theme reviews the sources of finance (BIS, 2009; 2013; 2015a; 2015c) as well as volume to examine if certain SMEs perform better as a product of financial stability or support (Cowling, 2010). Moreover the theme will examine what form of financial planning and management is applied at rural firms.

- **Research Theme 5** – SME failure in a rural location can be linked to a number of factors

While it was vital that the study examined what leads to SME success, it was just as important to identify any potential elements that could contribute to SME failure. Previous discourse indicates a number of potential forces and issues that can affect SME survival (Gaskill *et al.*, 1993; Carter and Van Auken, 2006; Beaver, 2003). Utilising questionnaire data, the study will be able to evaluate and potentially identify areas that need careful management in order to avoid failure.

3. Methodology

This chapter discusses the different methodological approaches applied to the study. It examines the different available approaches and provides a detailed rationale for the selection applied to this study. Interlinking these choices with methods applied in previous research the methods selected reflect a strong and robust consideration of methodologies to enable valid and reflective conclusions to be drawn.

It further discusses the philosophical considerations and research paradigms that have been applied alongside the methodological approach undertaken. It also examines the merits of different data collection methods before applying a questionnaire survey as the most plausible and reliable methods available.

For the research to be valid and undertaken in an appropriate manner, ethical considerations were undertaken and applied accordingly to the study. The chapter also discusses the rationale behind the overall structure of the questionnaire, highlighting the benefits and reasons for its design and how it contributes to meeting the objectives of the study.

Ultimately the chapter also provides an overview of how the different data collection and analysis methods enable conclusions to be drawn on the research themes and the contribution to current knowledge.

3.1 Epistemology

Epistemology is concerned with what equates to or constitutes acceptable knowledge in the field of study (Saunders *et al.*, 2015) and can be split into two key streams of thought. Saunders *et al.* (2015) view epistemological branches as either resource or feelings based. A researcher that is more akin to a resource-based position is keen to apply more structured reality to the subject area. For example, a resource-based researcher would view feelings and intangible elements of a study as having no external reality, i.e. be able to change according to the opinions and feelings of the research participants. Thus it could be argued, that resource-based researchers retain a position that is reflective of positivism (see section 3.5) and views quantified elements as real.

This is in contrast to the feelings-based epistemological position, as researchers reflecting this ideology are often keen to understand more ethereal and less structured elements of a study. Saunders *et al.* (2015) discuss that often researchers that are of a feelings-based epistemology tend to be more inductive in thought, seeking more interpretivist approaches.

Snape and Spencer (2003) contend that epistemology should also be viewed as the interaction or the relationship that exists between the researcher and the study area being researched. Indeed they (Snape and Spencer, 2003: p13-14) indicate three considerations in the examination of epistemology –

1. The relationship between researcher and subject area
2. Views on what is truth
3. How knowledge is acquired.

Thus, in order to adequately understand an epistemological position, clear considerations to the above need to be made. The relationship element mirrors resource and feelings dimensions highlighted by Saunders *et al.* (2015) and posit that the viewpoint of the researcher is important as a primary approach to identify epistemological position. Indeed ‘views on truth’ equally reflect the position of the researcher and if they are distanced (resource-based) or close to (feelings-based) to the research.

Snape and Spencer’s (2003) third element of how knowledge is acquired adds further to both the philosophical and methodological considerations of any research - which methods provide the best medium to ascertain truth. Crotty (1998) alongside, more recently, Feast and Melles (2010) contend that epistemological positions can and do influence research designs. Thus appropriate consideration of epistemological position for the purposes of this study is required (see section 3.3).

3.2 Ontology

Ontology is concerned with the nature of reality and the position by which social entities can or cannot affect reality (Saunders *et al.*, 2015). As such it questions if reality is created or affected by its ‘social actors’ or is reality created independent of

them. Denzin and Lincoln (2005) view ontology as evaluating the nature of reality and of human beings in the world.

Saunders *et al.* (2015) split these ideologies into two streams of thought – objectivism and subjectivism. Objectivism believes that social entities within the research study do not affect the overall reality. Thus, inherent structures, cultures and styles dominate reality where social entities or participants have little ability to affect these. These structures are similarly viewed by Bryman and Bell (2015) as objectivism and constructivism.

Snape and Spencer (2003) add realism as another ontological position that reflects objectivism. They posit that realism views reality as truth which is independent of what individuals perceive or understand it to be. As such, reality exists regardless of whether individuals interpret it accurately.

In contrast, subjectivism believes that reality is created and altered by social participants (Saunders *et al.*, 2015). As such the individuals within, around and involved with the research phenomena can alter and affect it. Subjectivism reflects Snape and Spencer's (2003) idealism ontology, where reality only exists based upon the opinions and perceptions of its social participants. Their view avers that truth only exists in the capacity that social participants allow it to.

In essence ontology focuses on how respondents or social entities foster the creation of a 'reality' or if reality does exist and social participants cannot affect truth. Nonetheless Snape and Spencer (2003) discuss of materialism, where reality in itself can be viewed from as what is material and what is immaterial. Here reality only exists when material features such as economic relations or physical features are present without values, beliefs or experiences.

3.3 Suitability for the study

For the purposes of this research, it is felt a resource based epistemological position and objectivist ontology reflects more strongly the aims and desires of the study. The nature of a resource based view, where concrete and more factual conclusions can be drawn to contribute to knowledge in the field is more reflective and akin to the

study's desire to examine and identify the different factors that affect small firm success. In essence, the desire to identify, validate and uncover prevalent issues through statistical testing and quantitative data collection approaches reflects positivist philosophy (see section 3.5) which is more akin to a resource based stance. As a resource based view posits researcher distance from the results of the study, the focus of the research and its methods consideration is an apt fit to this epistemological position.

The objectivist ontological position of this study reflects the nature of small business management and the effect that the external market has on its success. The reality is 'social actors' can contribute little to alter what the external environment will or will not do. Instead banks, funders, customers and indeed the entrepreneurs themselves, while active actors in their roles, have little power to structure realities in a manner that can affect phenomena. Similarly, social actors have little power to truly affect the geographical landscape of the country.

Given these considerations, a resource based epistemology and an objectivist ontology not only seemed appropriate for the study but best reflect the desires and aims of the research.

3.4 Research Paradigms

Saunders *et al.* (2015) and Bryman and Bell (2015) identify two research paradigms inductive and deductive (see table 8). The inductive form is where the theory is developed from the analysis of data collected by the research. This approach is suited to research where the objective is to form a theory or develop an understanding about why something has happened. It utilises loose and free notions of issues at the outset and seeks to build upon findings in the delivery of potential theories. The inductive approach builds upon research data and is keen to conclude with significant theories and potential interpretation of the results (Creswell, 2008).

On the other hand, the deductive form is where a theory and hypothesis are developed, with the research strategy being to test the hypothesis. Deductive research requires a structured methodology, which allows for replication, thus ensuring reliability. It also requires the researcher to be independent and objective,

with facts gathered being quantifiable and generalised, allowing verifiable conclusions to be drawn. The testing of research hypotheses is often associated with a deductive paradigm with a desire to evaluate causality and statistically significant relationships through predominantly quantitative approaches (Bryman and Bell, 2015; Creswell, 2008).

Table 8 Major differences between deductive and inductive paradigms to research

Deduction emphasises	Induction emphasises
<ul style="list-style-type: none"> • Scientific principles • Moving from theory to data • The need to explain causal relationships • The collection of quantitative data • The application of controls to ensure validity of data • The operationalisation of concepts to ensure clarity of definition • A highly structured approach • Researcher independence of what is being researched • The necessity to select samples of sufficient size in order to generalise conclusions. 	<ul style="list-style-type: none"> • Gaining an understanding of the meanings humans attach to events • A close understanding of the research context • The collection of qualitative data • A more flexible structure to permit changes of research of research emphasis as the research progresses • A realisation that the researcher is part of the research process • Less concern with the needs to generalise
Source: Saunders <i>et al.</i> (2007: p120)	

Saunders *et al.* (2015) highlight that inductive paradigms are primarily focused upon the building of theory while the deductive paradigm seeks to test it. Bryman (2015)

discusses the contrasting positions that deductive and inductive paradigms can have but also suggests that a coalescing of the two is possible. Bryman (2015) alongside Tashakkori and Teddlie (1998) suggest that real world research could exist in the hypo-deductive or hypo-inductive paradigm. In essence research could be predominantly deductive or inductive and yet contain sub-elements of both. As such a strongly deductive paradigm could be paired with elements of inductive understanding. For example a study that seeks to test and verify theory (deductive) could, at the first instance, inductively build this theory. From identifying the approach required, a strategy can thereafter be adopted.

As the study seeks to identify key factors that affect the success of rural SMEs it was vital to be able to deduce which elements played an active role in the potential of the firm. This approach reflects deductive approaches where testing to validate and negate would enable the identification of specific issues vital for SME success.

The need to test and verify linkages as part of the aims of the study reflected more strongly the stream of deduction. While inductive approaches seek to build and develop theory, the deductive approach seeks to test hypotheses. As the study endeavours to examine factors that contribute to success through a range of research themes a deductive approach is utilised. Likewise deduction reflects the ideologies of a positivist philosophy.

Datta *et al.* (2010) suggests caution in the use of deduction and the overall espousing of research findings. While deductive approaches allow testing and statistical review of data, the “moderating effects of contextual factors” are often missed in such form of analyses (Datta *et al.* 2010: p339). For example, in the utilisation of regression analysis and model development, often variables are included due to their effect on phenomena. It is also foreseeable that the variables that have not been included could have a moderating effect on the construction of that model. Therefore, the predictive power of such analysis, while potentially statistically significant, can have its own shortcomings owing to its focus upon the highest predictive power.

Likewise, even when conclusions are drawn on which measures provide strongest predictive power, the context of findings (ie environment, economy, politics) needs appropriate consideration. It is likely that the findings of this study where the examination of the causal effect that the independent variable has on the dependent

variable would only be strongly valid to its current context and could be different in others.

For the purposes of this study, there is potential that differences in industry or even fluctuations in the economy could contextually affect the success of SMEs in a rural location. This can limit the ability to infer causality and perhaps the complex constructs that effect testing of relationships. It is important to note that given the exploratory nature of the study and the intention to identify key factors that affect success of rural SMEs, there is little desire to determine causality.

Nonetheless, the quantitative instruments utilised for this study (see section 4.1) are based upon a detailed review of current discourse. As Bryman (2015) suggests, it is plausible and indeed likely that research can be dominant in one and still apply briefly another. While there are limitations to the deductive paradigm the research reflects more strongly a deductive approach where inductive understanding of the literature is then reflected in the dominant data collection method of questionnaires. The dominant deductive approach then undertakes testing and the verification of quantitative results.

3.5 Research Philosophy

There exist numerous philosophical underpinnings that can be applied or utilised in undertaking research. Bryman and Bell (2015) much like Saunders *et al.* (2007) indicate two major streams of philosophical approach – positivism and interpretivism (see table 9).

Table 9 Fundamental differences in qualitative and quantitative research strategies

Principal orientation to the role of theory in relation to research	Deductive; testing of theory	Inductive; generation of theory
Epistemological orientation	Natural science model, positivism	Interpretivism
Ontological orientation	Objectivism	Constructionism/Constructivism
Source: Bryman (2008)		

A positivist philosophical approach views the world as concrete and certain, where the real world phenomenon can be understood and examined in structured and quantitative ways (Ghauri and Gronhaug, 2002). The positivist philosophical is based strongly in the traditional sciences (Saunders *et al.*, 2007) and seeks to confirm or verify theories or elements of causality. It seeks to examine the real world based on numerical and mathematical relationship exploration and driven by the testing of variables (Onwuegbuzie, 2002; Johnson and Onwuegbuzie, 2004).

In contrast to this, interpretivism is keen on interpreting or understanding real world phenomenon (Bryman and Bell, 2015). The interpretivist researcher is driven by the desire to understand the intangible and loosely structured issues that are prevalent within the area of study (Ghauri and Gronhaug, 2002). Its focus is in understanding and reviewing the complexities of the real world away from solely strong mathematical analysis.

The approach centres on conducting in-depth research through more unstructured data collection methods that enables understanding of nuances and issues without the restrictions of closed responses. This allows for a more emergent form of research (Easterby-Smith *et al.*, 2012).

Saunders *et al.* (2015) is keen to highlight a third approach that bridges the gap between pure positivist and interpretivist philosophical underpinnings. They discuss the importance of a pragmatic philosophical underpin, which posits that the aims and purposes of the study could dictate the philosophical position of the researcher. Indeed they advocate that, given the numerous data collection methods available, modern research should utilise the best available methods to undertake research rather than be engaged in philosophical contrasts. This realisation of the importance to apply methods that best fit the needs of the study rather than being embroiled in 'paradigm wars' (Tashakkori and Teddlie, 1998) has been often documented (see Creswell, 2008; Johnson and Onwuegbuzie, 2004).

For the purposes of this study, a positivist philosophical underpinning was applied. Given the scope, objectives and geographical restrictions that affect and direct this study, a positivist philosophical approach enables the research to utilise the best available data collection approaches to the benefit of the study. A positivist philosophy ensures that the research not only collects a robust range of data but that

utilising the most appropriate data collection methods, the study benefits from enhanced reliability, validity and generalizability.

Given the study's aim to identify and test key factors that enable success, the quantitative nature reflects a positivist paradigm. Similarly positivism mirrors the desires of a deductive research approach thereby creating parity through the methodological considerations of the study. The keenness to deduce is facilitated by the positivist philosophical underpinning. Likewise, the survey methodology discussed in Section 4.1, is further reflective of this consistency and linear structure of methodological considerations in this study.

3.6 Research Strategy

Before deciding on the strategy to be employed, it is important to eliminate other potentially suitable strategies. Three possibilities were identified: experimentation, case study and survey (Jankowicz, 2000). Each of these methods would allow testing of the research themes of this study.

Usage of experimentation as a research strategy was discounted as the approach was impossible to be robustly applied with the context of this study. Experimentation requires the use of control variables and certain laws of scientific structuring (Novikov and Novikov, 2013) which would have fallen outside of the capabilities of this study. While it would have been beneficial to have a control group of SMEs to test specific elements that equated to and have been catalyst to success, the ability to control variations in the real world (Hair *et al.*, 2007) as well as recruit firms that were willing to participate stringently to scientific study was an unrealistic demand. Given these difficulties, the experimentation strategy was discounted.

The use of a case study was identified as a potentially useful and informative strategy, giving a representative comparison from existing data. Case studies seek to investigate in great detail empirical data of a particular case (Saunders *et al.*, 2007) and can be undertaken through single or multiple cases (Yin, 1994). The ability to examine in great detail the various elements that contribute or affect success in a case study would have been beneficial to research on SMEs. Nonetheless the need to select specific cases, in addition to difficulties in ensuring generalisability to a rural

setting negated the ability for a case study strategy to provide sector-wide conclusions. Such difficulties were also encountered by Castka *et al.*'s (2004) study on the application of corporate social responsibility on UK SMEs, where the findings of their research had limited application. Likewise, Hoffman *et al.*'s (1998) study into the methodological approaches undertaken on small firm research highlights limited usage of case studies. They identified, that of the 50 studies undertaking empirical research only 12 utilised case study methodologies with the remaining using survey based approaches. Coyte *et al.*'s (2012) paper on SMEs in Australia, for example, discusses the limitations that case studies have in enabling a generalisable conclusion to be drawn. Similarly Chiarini (2012) in identifying quality approaches for SMEs also admits that there are limitations to his study and posits future surveys or quantitative methods would enhance findings. This adds weight to the difficulties and potential inconsistencies that can affect case study strategies if applied for the purposes of this study.

Instead the survey method provided the most adequate mix of specificity and generalisability to ensure that the study was not only robust but accurately reflected the real world. The survey method not only provides an element of scientific rigour through statistical testing but enables a wider respondent group to be selected, thus for the purposes of this study, superseding experimentation and case study strategies. Hoffman *et al.* (1998) for example indicate the prevalence of survey approaches in the studies examining SMEs.

A review of empirical studies in SMEs similarly reflects the dominance of survey methodologies. Quayle (2002: p1152) for example discounted case study and action research as problematic and instead utilised questionnaire surveys for "wide geographical and industrial coverage." Other studies such as Freel and Harrison (2006) placed strong prominence on survey research achieving response rates of just over 1,300 questionnaires. Rassenfossé (2012) was able to further understanding of SME intellectual property through examining of survey data of UK and America firms. Indeed the Small Business Survey by the Department for Business Innovation and Skills (see BIS, 2015c) in the UK predominantly applies survey research approaches to their data collection.

Saunders *et al.* (2015) state that a questionnaire is generally perceived as authoritative, easily understood, and gives greater control over the research process. However, this approach does have limitations, which must be acknowledged. It is a time consuming method, requiring careful design and piloting. The range of data collected is also limited, as questionnaires that are excessive in length may lose the respondent's interest (Oppenheim, 2000). Kumar and Anthony (2008) for example, suffered from low response rates from their questionnaire survey of UK manufacturing SMEs. Nonetheless in the review of SMEs questionnaires are seemingly the dominant approach (McAdam *et al.*, 2010; Owens, 2007; Freel and Harrison (2006; Rassenfosse, 2012).

Given that the study is keen to involve a wide target audience, the survey and questionnaire method was considered most appropriate. As such the survey method was deemed to be the most appropriate, given that it would allow for the economical collection of a large amount of data from a substantial population. The survey method also allows for standardisation, lending itself to simplified comparison. The approach most commonly utilises structured questionnaires in the data process (De Vaus, 2013; Saunders *et al.*, 2015). Given the large geography targeted by the study (much like Quayle, [2002]) and the vast number of previous studies utilising this approach (Rassenfosse, 2012; Coyte *et al.*, 2012; Hoffman *et al.*, 1998; Freel and Harrison, 2006) the survey approach seemed the most viable approach.

3.7 The qualitative v quantitative approach

Research can be undertaken through two major approaches, the qualitative or quantitative. Qualitative approaches are often concerned with the collection of data that is not in numerical form but rather information that enables rich understanding and contextualisation. Qualitative approaches undertake scientific enquiry through much softer but very insightful means. Bryman and Bell (2015) and Saunders *et al.* (2007) highlight that qualitative approaches are able to more accurately reflect the real world through understanding and interpretation as opposed to solely quantification. Indeed Creswell (2008) and Miles and Huberman (1994) discuss the ability for qualitative approaches to delve deep into the philosophy, understanding and intangible dynamics of research.

As such a qualitative approach does lend itself better to research that focuses on trying to understanding subtle nuances as well as contextualisation of issues. There has also been growing research on deeper understanding into entrepreneurship via qualitative methodologies (see Hill and Wright, 2001; Audretsch *et al.*, 2007).

Quantitative approaches do differ as they seek to provide factual understanding through examination of numeric or structured data. Quantitative researchers are often keen on utilising structured surveys or financial data to examine, uncover or test phenomena. Creswell (2008) highlights how quantitative approaches focus strongly on variables that can be verified statistically or which have more numerically concrete conclusions.

Nonetheless both approaches do have their drawbacks. Saunders *et al.* (2015) discuss how qualitative research can often be influenced by bias and researcher prejudice. Creswell (2008) and Bryman and Bell (2015) highlight that while qualitative approaches are able to understand rich detail, statistically significant results that enables the examination of causality is often neglected. Qualitative approaches tend to be utilised in smaller studies that undertake a detailed examination of issues, with large scale research often too costly or logistically difficult to administer. As such while rich contextual understanding is achieved, overall generalisability on a wider scale can be questioned as highlighted by Chiarini's (2012) findings.

Similarly quantitative approaches can focus too strongly on numerical testing and statistical significance, overlooking detailed understanding of the contextual and subtle sub-issues that exist. Moreover Miles and Huberman (1994) posit that for quantitative approaches to be applied, some form of qualitative understanding and review is required in the beginning. As such quantitative research can also be exposed to researcher bias. For example, structured questionnaires being designed based upon the researcher's interpretation of prevalent issues within secondary sources.

A third approach that bridges the gap between qualitative and quantitative differences is through the application of mixed methodologies. Tashakkori and Teddlie (1998) discuss that utilising a dual approach can be beneficial to research studies through providing an avenue to limit the problems of purely quantitative or purely qualitative approaches. Bryman (2015) and Tashakkori and Teddlie (1998)

add that mixed methodologies provide the researcher with a means to utilise approaches and data collection methods that best fit the needs of the study, rather than becoming involved in ‘paradigm wars.’ Moreover Hair *et al.* (2007), Bryman and Bell (2015) and Hammersley (1996) are keen to indicate a number of other benefits that can arise through the use of mixed methodological approaches. Not only can methodological triangulation of data be undertaken but overall reliability and validity is improved as a range of data sources are reviewed. Moreover researcher bias is less prevalent with overall generalisability improved. In essence, a mixed methods approach balances the division between solely qualitative or quantitative methodologies and to some degree exploits their inherent benefits without their disadvantages.

Nonetheless, Bryman and Bell (2015) warn that mixed methodologies undertaken incorrectly could limit the strength of research findings. For example, they discuss how, in a bid to collect more data, researchers have often forgotten to consider their research questions in their methodology design. Often such researchers end up with a wealth of data which does not enable robust conclusions to be drawn for the purposes of the study. Another drawback suggested by Johnson and Onwuegbuzie (2004) is that utilising mixed methods requires the researcher proficient in both qualitative and quantitative approaches. Similarly combining and coalescing the results from qualitative and quantitative methods requires appropriate skill and interpretation of findings.

3.8 Methodology applied to this study

Given the scope of the study and its examination of SMEs within a rural location it was decided that a quantitative methodological approach would be most suitable. Similarly due to the geographical locations as well as logistical difficulties in collecting data across the North West of England, utilising a quantitative approach would not only allow wider collection of data but would also allow testing of the study’s research themes. The usage of a structured questionnaire best fits the research strategy, philosophy and needs of this study. Indeed utilising a quantitative approach allows the study to ensure that all SMEs within a rural location have an equal opportunity of being sampled.

The quantitative approach has been strongly reflected by previous studies by Quayle (2002), Oke *et al.*, (2007), Blackburn *et al.* (2013), Choudrie and Vyax (2014) and Uduma *et al.* (2015). These studies have also indicated a strong level of data reliability and potential for testing. More specifically, there has also been a dominance of questionnaires usage in research into SMEs (see Tan *et al.*, 2009; North and Smallbone, 2000; BIS, 2013, 2015c).

Thus, for the purposes of this study, a quantitative approach, through the use of a structured questionnaire is utilised in the data collection process. The ability to test and verify factors affecting success in rural SMEs around a geographically vast sample respondent group posits the usage of questionnaires in the data collection process.

4. Method

4.1 The Structured Questionnaire

The study will utilise a structured questionnaire in the collection of data. The advantage of this approach is that it is standardised, allowing a numerical statistical analysis. Robson (2002) and Fowler Jr. (2013) also indicate that it is a simple and straightforward method, which can be generalised to the population. Furthermore, in the case of questionnaires, a large set or geographically dispersed sample population can be surveyed in a cost effective manner (Zikmund *et al.* 2012). Jankowicz (2000) and De Vaus (2013) also agree that the standardisation allows for anonymity, which encourages frankness.

Bryman and Bell (2015) and Oppenheim (2000) advocate usage of a range of question types allowing for more diverse and potentially intensive analysis of the data collected. Similarly, it is vital to undertake pilot testing to facilitate clarity of questions, structuring and language (Oppenheim, 2000).

For the purposes of this study, a hardcopy and online version of the questionnaire was utilised to improve distribution and speed of delivery of the data collection instrument (Bryman and Bell, 2015) (see Appendix 1 for a copy of the questionnaire). Moreover there were a number of other benefits that were gained through the use of online surveys. For example non-responses could be specifically and easily targeted.

Likewise users who had commenced but not completed the survey could be sent reminder requests. As online databases were also protected by robust security measures, not only did online surveys provide a useful and practical means to distribute questionnaires but a safe and secure means as well. McPeake *et al.*'s (2014) findings into research on UK healthcare revealed that electronic questionnaires were not only an efficient method of data collection but it further allowed ease of analysis. Similarly, Temple and Brown (2012) suggest that data collection via Internet-based methods were highly useful so long as careful and appropriate targeting of respondents was undertaken.

For the purposes of this study, respondents were also always provided with the option for hardcopy questionnaires to be sent to their address for completion. To further ensure parity, both hardcopy and pilot questionnaires were piloted.

Table 10 Issues when utilising online surveys.	
Issue	Remedy
1. All members of the population must have e-mail addresses, computer access and adequate computer skills to respond to the questionnaire. Any population members not having e-mail addresses are excluded from the sample.	The FAME database provided access to such information for all registered companies. The ability to utilise this information as well as segment datasets across NUTS enabled a robust sample of respondents to be reached.
2. Access to the survey should be simple and recipients directed to the uniform resource locator (URL).	A weblink to the survey was provided to all respondents within the email and on the information sheet accompanying all questionnaires sent.
3. As with all questionnaire surveys, one or more follow-ups should be planned and conducted with appropriate time intervals.	Online surveys allowed for identification of non-responses and appropriate targeting measures to be undertaken. The selection of Qualtrics was based on this consideration.
Source: Adapted from Wiersma and Jurs (2009: p219)	

4.2 Structure of the Questionnaire

The questionnaire pack was developed with the ethical considerations of informed consent (see chapter 4.8) in mind. Moreover, the different sections of the questionnaire were drawn from and designed against the prevalent issues within the literature. The flow and structure of the questionnaire was designed to ensure ease for completion by respondents.

4.3 Informed Consent

The first page of the questionnaire provided an overview to potential respondents of the aims and desires of the study (see Appendix 1). This acted as an information sheet where respondents could understand how their responses were utilised and how it contributed to the study's objectives. In tandem to the ethical considerations highlighted in chapter 4.8, the questionnaire includes a consent form. They are also informed of their rights and their data is stored securely and confidentiality. Respondents are required to sign to provide their consent.

4.4 Questionnaire Sections

4.4.1 Section 1 – The Entrepreneur

Section 1 covers a range of demographic areas that seeks to collect more detailed data on the background and segmentation of the entrepreneur. The aim of the section as per Oppenheim (2000) is to provide an “easy” demographic section to set the scene for respondents before more difficult and detailed questions are asked. Nonetheless this section further provides valuable information on the background and mind-set of the entrepreneur and builds upon considerations highlighted by Storey (1994), Beaver (2003), Cassar (2004), Macpherson and Holt (2007), Dobbs and Hamilton, (2007), Cowling *et al.* (2012) and Blackburn *et al.* (2013).

4.4.2 Section 2 - Key performance elements

This section of the questionnaire identifies the different priorities of the SMEs in a rural location. The overall goal of the questions in this section is to uncover if

distance, indicators of performance, sources of income and overall size of business has an effect on SME success. Elements here are based upon previous discourse in the field (see Aernoudt, 2003; Cassar, 2004; Ayyagari et al., 2007; Dobbs and Hamilton, 2007; Cowling, 2010; Cowling *et al.* 2012).

4.4.3 Section 3 - Financial Focus

The body of literature has indicated a number of important financial elements that are vital in enabling an SME to succeed. This section seeks to collect data on the various methods and approaches to financing a business that is available to the entrepreneur. It considers issues around access to finances BIS (2009; 2013; 2015c; Brown and Lee, 2014) and the financial management practices of small businesses (Rostamkalaei and Freel, 2014; Deakins and Freel, 2009; Cowling *et al.*, 2012).

4.4.4 Section 4 – Issues around business

Section 4 is utilised as a means to gather different opinions and perceptions on numerous areas that could affect the overall success of an SME. It consists of mainly Likert Scale questions to enable speedy completion of this section. Given the length of this section, segments were created. This was done as a conscious choice to reduce respondent fatigue and continue to gather sufficiently rich data that would provide valuable insight into a wide range of concerns for any SME. Issues include internal and external elements of the business as well as geographical and demographic details that previous discourse has highlighted (Storey, 1994, Hoffman *et al.*, 1998; Blackburn *et al.*, 2013; Cowling *et al.*, 2012.). Similarly to ensure completeness, reasons and opinions as to why SMEs could fail (see Walker *et al.*, 2007 and Coad, 2013) are also examined here. Questions of this nature may uncover particular traits or issues that can hinder SME success in a rural location.

The length and question type utilised in this section was also in preparation for Factor Analysis to be undertaken where key issues could be statistically identified.

4.5 The region and SMEs

The North-West region of England comprises a variety of geographical areas. In the north (Cumbria) the region is very rural and mountainous, very picturesque and an

important tourist destination (for instant around the Lake District). The central part is more urbanised and with high density of population, in particular around the areas of Greater Manchester and Greater Merseyside. Finally, Cheshire to the south, on the border with Wales and Lancashire are predominantly rural with some urban agglomerations. However, overall, thanks to the network of motorways (the M6 crossing the region from North to South) and the M62, M53 and M57 linking urban centres in the region from West to East and the international airports of Liverpool and Manchester, very few areas are, in fact, very far from good transportations links to the rest of the United Kingdom and the rest of the world. Economically, the North West used to be the cradle of industrialisation (Manchester and Lancashire), with Liverpool providing a port. In recent times, the area has undergone a substantial process of de-industrialisation, but new industries in the service sectors have partially replaced them.

In order to ensure that the data collected was reflective of small and medium sized enterprises in a rural location a number of parameters were utilised in the selection of businesses for the purposes of this study. Utilising terminology by the European Commission (2005) companies and firms that fall under the definition of SMEs must contain:

1. < 250 employees
2. An annual turnover of < 50 million Euros or an annual balance sheet of < 43 million Euros

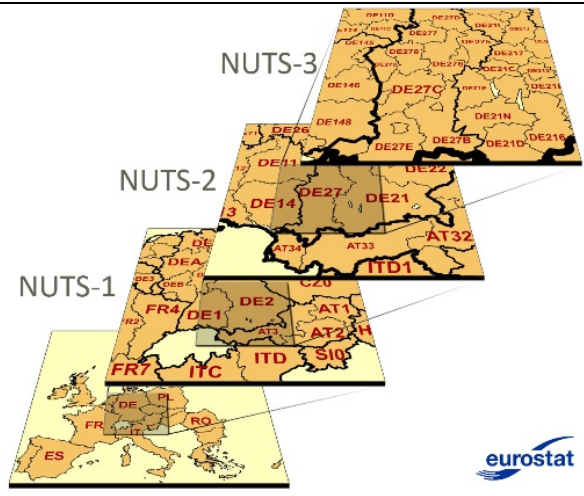
The commission further indicates that SMEs can be segmented further:

- micro (1-9 employees) < 2 million Euros
- small (10-49 employees) < 10 million Euros
- medium (50-249 employees) < 50 million Euros

Utilising Bureau Van Dijk FAME database, SMEs were selected based upon the criteria above. In addition to this, selection of respondents was drawn from rural locations. The Bureau Van Dijk FAME database was used to identify potential businesses for research as it provided, as best as possible, accurate details of businesses officially registered in the UK. This ensured that an accurate sampling frame could be drawn in order to undertake probability sampling methods.

The ability to segment businesses to ensure that they fell within the parameters and definitions of an SME as well as the accuracy of FAME data has ensured to a large degree the validity and reliability of data to be collected. Utilising the FAME database as a means to identify a sampling frame has been well documented by previous SME studies (see Wagenvoort and Hurst, 1999; Klapper *et al.*, 2006; Mullins *et al.*, 2007; Ramdani, 2009; Bamiatzi *et al.*, 2010; Herbane, 2013 and Mason *et al.*, 2015). In many of these studies, FAME provided a valuable source of accurate data that could be segmented to the needs of the research.

Another key element in the selection of samples is in the definition of rurality. For the purposes of this research, Bureau Van Dijk FAME further allows the database to be searched at the level of Unitary Authority District (UAD), at the nomenclature of territorial units for statistics (NUTS) level three. NUTS is a classification of geographical areas developed by the European Union, where, as illustrated in Table 11, NUTS level one is the region (in this case the North-West), level two are the counties, while level three is the unitary authority or district within the region. Based upon Defra’s (2005) nomenclature of NUTS as well as its rural/urban local authority district classification, the overall population of SMEs in rural districts of the North West of England was identified for sampling.

Table 11 Nomenclature of Territorial Units for Statistics (NUTS) is a hierarchical classification of administrative areas		
NUTS 1	major socio-economic regions	 <p>Source: Eurostat (2015)</p>
NUTS 2	basic regions for the application of regional policies	
NUTS 3	small regions for specific diagnoses	

As the FAME database allows the overlay of NUTS segmentation of rural regions, the study is able to identify an accurate sampling frame that considers both official

definitions of rurality and SMEs. Figure 9 displays the rural regions of the North West of England, with Table 12 detailing the Defra definition of rurality.

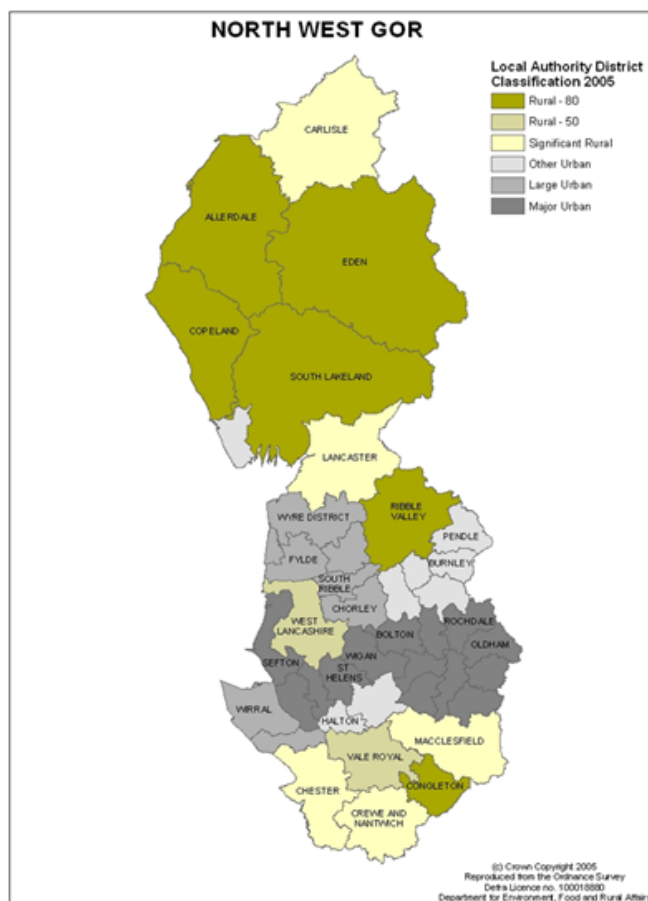
The NUTS and DEFRA definition provides the study with a means to classify the different regions of the UK and more specifically England. Nonetheless as Cowie *et al.* (2010) contend rural economies are diverse and complex systems that are affected and altered by their local and extra-local processes. This suggests some differences between the regions. Pateman (2011) for example indicates that within studies on rurality there exists ‘two countrysides’ – a better off and more accessible rural geography to another that is less population and sparse. Therefore while the NUTS classifications (see table 11) and the definitions of rurality (see table 12) provide a generic means to assess the rural geography of England, these can be placed at extremes (Pateman, 2011) and therefore omit their subtle differences. The Department of Communities and Local Government (2008), for examples, suggests that differences in the demarcation of sub-regions can create unseen economic advantages but could equally be fragmented and lacking capacity.

Similarly Kalantaridis and Bika (2011: p875) in their study of SMEs in the North West of England, suggest that regions are inherently different and results cannot be ‘readily generalised.’ Their examination of innovation approaches, for example, suggested variation in regional systems.

Thus, it is important to note that the North West of England is selected due to its size and scope of rurality. The conurbations within the NUTS classification of the North West provide a strong and diverse picture of SMEs in a rural location, suggesting an interesting and key region of focus. It is hoped that the findings of the North West can be transferred to other regions within England (as notion similarly espoused by Kalantaridis and Bika, 2011). Nonetheless, while there are similarities that are reflected in other regions in the UK, the study does not include or factor these into its analysis. Rather the perceptual data collection for the purposes of this study is focused upon entrepreneurs in the North West of England. It is foreseeable that the findings of this study can be mirrored in other regions but further research into this is required.

Table 12 English definition of rurality	
Major Urban	Districts with either 100,000 people or 50 percent of their population in urban areas with a population of more than 750,000.
Large Urban	Districts with either 50,000 people or 50 percent of their population in one of 17 urban areas with a population between 250,000 and 750,000.
Other Urban	Districts with fewer than 37,000 people or less than 26 percent of their population in rural settlements and larger market towns.
Significant Rural	Districts with more than 37,000 people or more than 26 percent of their population in rural settlements and larger market towns.
Rural-50	Districts with at least 50 percent but less than 80 percent of their population in rural settlements and larger market towns.
Rural-80	Districts with at least 80 percent of their population in rural settlements and larger market towns.

Figure 9 Rural Regions of North West England



- Allerdale
- Carlisle
- Chester
- Congleton
- Copeland
- Crewe and Nantwich
- Eden
- Lancaster
- Macclesfield
- Ribblesdale
- South Lakeland
- Vale Royal
- West Lancashire

4.6 Sampling Methods

There are a number of sampling methods to choose from, all of which fall under the heading of either probability or non-probability. The later type is commonly used where the individual's specific status or background is of interest to the researcher, who is looking for a variety of viewpoints.

Before selecting an appropriate sampling technique for each of these frames, it is important that a suitable sample size is determined. Henry (1990) suggests that probability samples should not be less than 50. However Saunders *et al.* (2007; 2015) contend that a sample of 30 is statistically significant, which agrees with Robson's (2002) assertion of between 20 and 50.

There exist two branches of sampling approaches – probability or non-probability sampling. Probability sampling approaches ensures that all potential respondents have a fair mathematical opportunity of being selected. As such probability sampling ensures that the population has a mathematically calculable chance of being selected. Often scientific research undertaken through probability sampling methods is viewed as more robust and reflective of the population as any potential bias in participant selection is removed (Bryman and Bell, 2015).

Common approaches to probability sampling include simple random sampling, systematic random sampling, stratified random sampling and cluster sampling. Random sampling involves a straightforward selection from the population, where each and every member of the population has an equal chance of being selected (Bryman, 2015). The random element can be either simple or systematic, with 'simple' giving an undetermined random sample (perhaps through the use of random number generators or tables) and 'systematic' giving a random sample determined by selection at regular intervals. This is used where a generalisation of the entire population is required, without the need to make further distinctions between members of the population (Jankowicz 2000). Simple random and systematic approaches can utilise mathematical formulas to ensure randomised selection of respondents thus nullifying bias. Stratified approaches segment respondents based upon natural occurring or clear identifiable stratas and categories before random selection from the groups are drawn. Jankowicz (2000) defines stratified random sampling to be applied when the population is divided into significant subsets to

ensure that the final sample is proportionally representative. Each subset is then selected randomly (simple or systematic). The third technique, cluster sampling, is normally utilised to overcome the restrictions where face-to-face surveys are required from a sample of a geographically dispersed population. It involves the grouping of relatively compact geographical sub-areas, which are then selected randomly, the rest being discarded. The main drawback of this technique is that it tends to give a less representative sample than stratified random sampling.

These approaches allow respondents to be drawn without favouritism to a particular grouping and most importantly away from the potential selection bias prejudiced by the researcher.

Non-probability sampling methods are often utilised when accurate sampling frames are difficult to ascertain. Unfortunately such approaches do not allow a fair mathematical opportunity for respondents to be selected and can be open to bias. Non-probability sampling methods are utilised based upon the interests of the research objective, focus and population. These sampling approaches reflect strongly the scope and needs of the study and as such ensure robust collection of data, as only key respondents are selected rather than everyone at random (Saunders *et al.*, 2015).

Non-probability sampling approaches include quota sampling and purposive sampling.

Quota sampling provides the easiest approach to non-probability approaches. Respondents are selected to reach a required number of responses. For example, the population from where to draw the sample may be 10,000 individuals. A quota sampling method could potentially set a target of 10%, with responses from 1,000 individuals being sufficient. This sampling approach ensures reliability and validity through size in numbers. As such this sampling approach does require larger responses rates to ensure that results more closely reflect the population (De Vaus, 2013).

Another approach utilised in non-probability sampling is through purposive or critical case sampling. The approach selects respondents by identifying individuals or cases that meet a certain criteria. Often these cases contribute strongly to the

issues of the study and are selected as they can provide detailed and valued data. Critical case sampling methods have also been utilised to select outliers or key cases that go against the norm. These are reviewed to not only provide an alternative to current views but can indicate alternative conclusions that contribute to knowledge (Saunders *et al.*, 2015).

4.7 Sampling method for this study.

Through utilising the FAME database, an accurate and complete sampling frame was drawn. Access to valid and up-to-date accounts and trading details of SMEs in the rural regions of the North West of England based upon NUTS classifications detailed above ensured that a more scientifically robust probability sampling method could be applied. In total, based upon the definition of SMEs alongside NUTS classifications of rural, a total of 1356 businesses were drawn.

To ensure that the businesses selected were based in a rural location, further research was undertaken on individual firms on the FAME database. This additional reliability check ratified that financial and employee figures were drawn from businesses that were located in rural areas. Moreover, the data cleansing undertaken was vital in ensuring that the sampling criteria were accurately met.

A simple random sampling approach was then applied to the population drawn from FAME data. Utilising Yamane's (1967) simple formula for sampling proportions (see calculation below), 309 businesses were drawn randomly to ensure a reliable and valid sample size. Applying randomisation software, the 309 businesses selected from the FAME database.

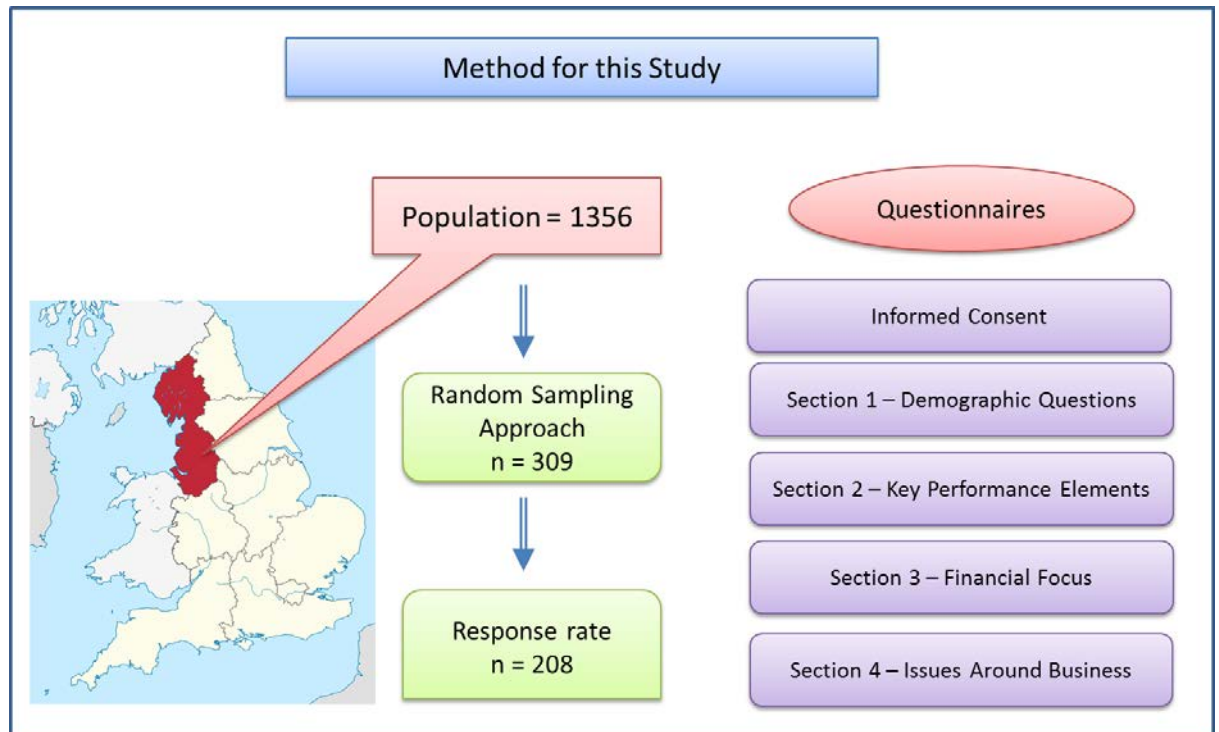
Figure 10 Yamane's Formula and Sampling Considerations

$$n = \frac{N}{1 + N(e)^2} = \frac{1356}{1 + 1356(0.05)^2} = 309$$

The usage of probability sampling methodologies and Yamane's sample size ensured a strong degree of reliability and validity to the study. Similarly as a reflective sample was drawn from the population of rural firms in the North West, the

generalisability of results is maintained. An overview of the questionnaire design and sampling considerations can be found in Figure 11.

Figure 11 Summative of methods and questionnaire structure



4.8 Ethical considerations for the study.

Burns and Burns (2008) and De Vaus (2013) advocate that all research needs to consider ethics and the value it has on the overall quality of data collection and the communication of subsequent findings. Bryman and Bell (2015) discuss the importance in ensuring that participants of any research are aware of not only the aims and objectives of the study but their rights. They add that participants have a right to withdraw from the study at any time and should be afforded confidentiality, privacy and security of their data unless otherwise stated. Saunders *et al.* (2012) view this as vital in any research as trust from participants is reciprocated by more accurate opinions being voiced.

Bryman and Bell (2015) highlights that the initial starting point for the participation of any individual begin with the need for informed consent. Indeed Bryman (2015) advocate that no informed consent or deceit of research participants can only be undertaken when warranted and more specifically as a last resort. It is also vital as part of informed consent that respondents are aware of the scope of any research and how their responses fit into the project.

As such, for the purposes of this study, respondents were provided with a detailed consent form to ensure that they not only understood the scope of the study but that they were aware of their right to withdraw at any time. A sample consent form can be found in the appendix.

4.9 Validity and reliability

In order to ensure that the findings and subsequent conclusions drawn for the study are valid and reliable it is vital to consider methods to bolster the overall robustness of the research.

Bryman and Bell (2015) posit that validity is concerned with how reflective and accurate are the findings and if any research and its conclusions reflect the data collected. Bryman (2015) discusses two prevalent threats to validity which exist – internal and external validity. They highlight that there are more controls available to restrict and improve internal validity but planning and monitoring are the key approaches to resolving problems with external validation.

Saunders *et al.* (2012) view internal reliability to be more concerned with the internal construct of a research design or data collection method. For example, for research reviewing causality, there is a need to consider if the data collection instrument and analysis method is not artificially skewed through bad design. Field (2013) suggests that Cronbach Alpha tests of reliability provide a suitable overview of internal construct reliability and an indication of the strength of a questionnaire. A reliability score for the questionnaire can be found in Section 5.1.

In contrast external validity is more focused upon the generalisability of data and the group sampled from the population. Creswell (2008) highlights that external validity is concerned with how well the findings apply to the population and if the results and conclusions truly reflect reality. Table 13 details the different measures of internal and external validity and the considerations of this study. For example, in a bid to strengthen the results of this study, participant selection was undertaken utilising probability sampling to ensure unbiased data collection. Similarly, the data collection was conducted over a short period of time to limit the effects of ‘history’ and ‘maturation’.

Nonetheless, given the exploratory nature of the study, there is limited inherent desire to measure the causal nature of the different constructs that enable success. Rather the study is keen to examine and identify the different elements that enable rural SME success. There is scope to examine the moderating effects of contextual factors alongside those identified by this study as important to rural firm success in future research, thereby incorporating more complex and multiple measures. As such the moderating effects of contextual factors need to be considered to ensure that a more holistic and open interpretation of the elements that contribute to rural SME success are provided with apt review. It is often that variables with strong predictive powers are considered in advance of other competitive factors, where precedence can be placed unequally. Due to the exploratory nature of this study, it is vital that a multitude of factors be considered, nonetheless it also prudent to suggest that not all mediating variables can be considered with equal rigour. Therefore while the study has tried to incorporate these considerations within its design and analysis for validity and reliability, the importance of mediating factors should not be forgotten in the interpretation of its key findings.

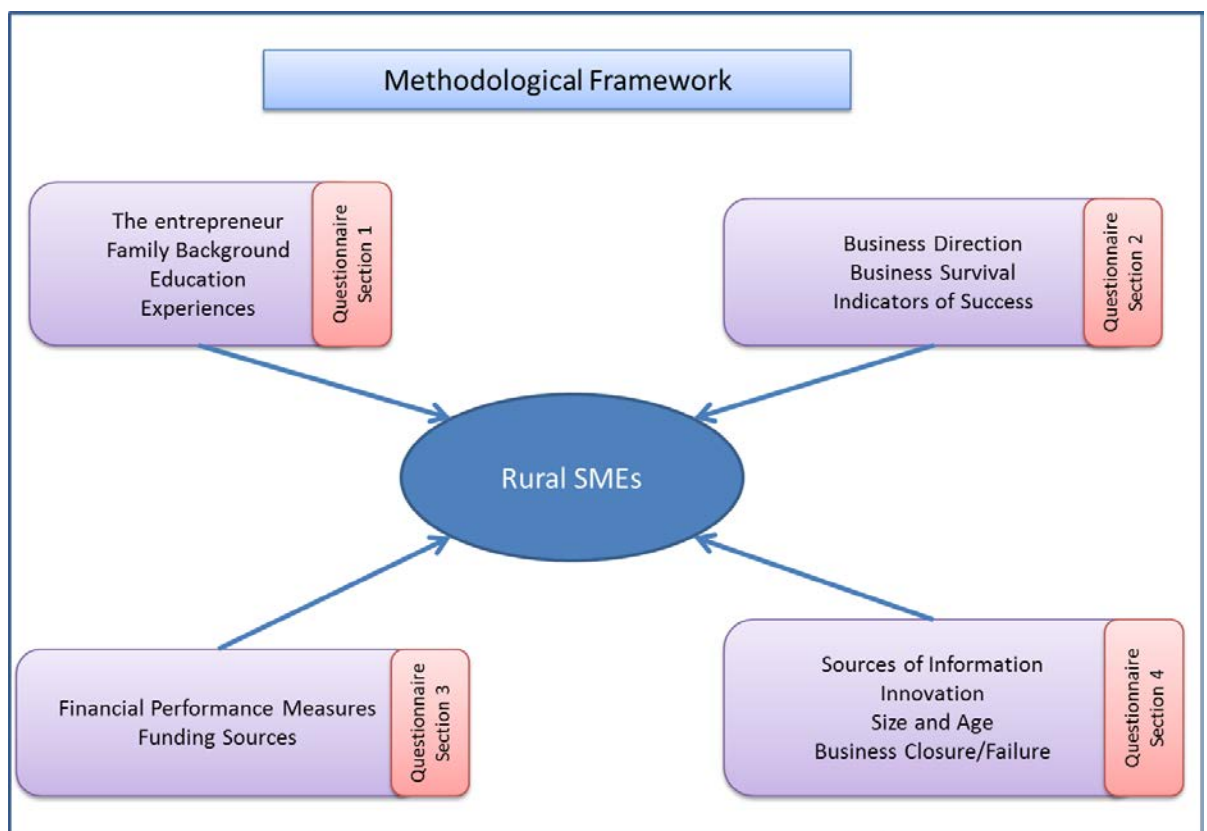
Table 13 Validity and Reliability of this study

	Concern	Description	Mitigation
Internal Validity	History	As time passes events can occur that unduly influence the outcome.	The data collection process research was undertaken over a period of 6 months thereby limiting length and potential changes in respondent opinion.
	Maturation	Participants may mature and change during the experiment altering results.	
	Participant Selection	Participant characteristics may predispose them to have certain outcomes.	Usage of probability sampling provides a representative and reflective sample size thereby circumventing this threat.
	Mortality	Participant drop outs	Mapping of questionnaire returns against questionnaires sent. Moreover usage of electronic questions provides an economical approach to resubmitting requests for completion.
	Testing	Participants become familiar with the outcome measure and remember responses.	Highly unlikely as results will only be provided once all data collection and analysis is completed.
External Validity	Interaction of selection and treatment	Inability to generalise findings due to narrowness and specificity of individuals outside of participants characteristics selected.	Utilising an accurate sampling frame enabled a probability sampling approach to be undertaken. This reduced levels of bias and improved reflectivity of sample size against the population.
	Interaction of history and treatment	As results are time-bound, results cannot be generalised to past or future situations.	Potential to be generalised for future situations with research limitations as caveat.
Adapted from Creswell (2008)			

4.10 Summary

In order to achieve the aims and objectives of the study, the different methodological approaches considered reflect and complement the key goals of the research. The philosophical and methodological considerations reviewed here reflect the needs of the study and enables robust data collection and analysis. The methodological framework below (Figure 12) provides an overview of the different measures of firm success and its effect on rural SMEs. These are mapped against questionnaire constructs.

Figure 12 Methodological Framework



Utilising a positivist philosophical paradigm, the study recognises the inherent difficulties that exist with the ‘paradigm wars’ but instead decides to reflect on an approach that enables robust data collection and the achievement of the key objectives of the study. This position enables the testing of the research themes as in figure 12. Applying a positivist paradigm facilitates identification of key factors affecting success for rural SMEs. The different issues as highlighted by current discourse have been fed into the design of the questionnaire and the various sections

within it. This ensures robustness in its construct and the ability for the study to reliably test its research themes.

Similarly the structured questionnaire was distributed to a robust and reflective sample group followed by statistical testing through deductive approaches, further facilitating significant conclusions to be drawn. These could identify key factors in the examination of success factors for rural SMEs as well as signpost areas for future research where more confirmatory and causal examination can be undertaken.

The application of the survey approach provides the best methodology that reflects the research themes of the study and the exploratory focus it is embarking upon. Indeed the approach and the usage of a structured questionnaire enable the study to evaluate the posited research themes.

5. Data Analysis

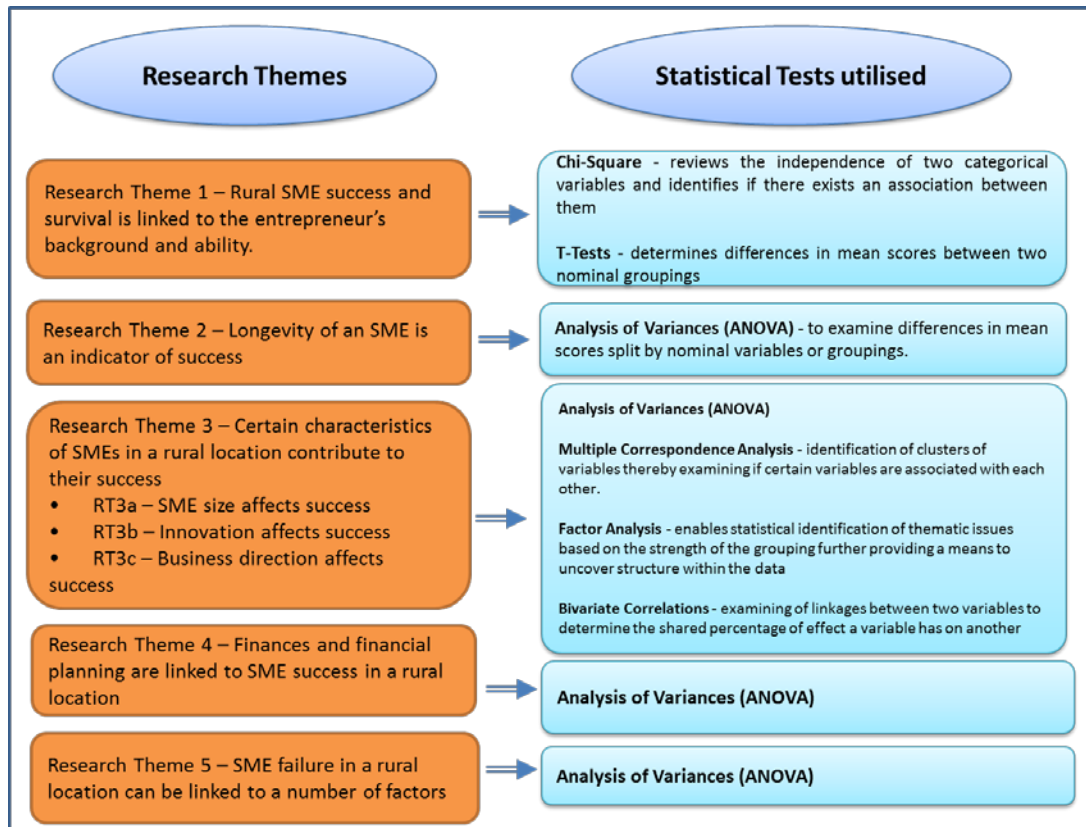
The chapter is structured around the research themes with a range of tests and results discussed within each. The approach allows detailed examination of the research themes utilising a range of quantitative methods of testing to examine the validity of the five research themes.

Examining data collection from the questionnaire survey of entrepreneurs in rural SMEs, the chapter utilises tests of correlations, associations and other statistical approaches to identify linkages in the dataset. Other tests such as correspondence analysis which examine clusters within demographic and categorical data were also undertaken. The application of t-tests to determine differences in mean scores against two nominal groupings are discussed in this chapter. It further provides an explanation and rationale behind the use of each test discussed when applied accordingly to each research theme.

A factor analysis was further undertaken on scale data to identify if ‘factors’ or thematic elements exist within the dataset. Bi-variate correlations were also undertaken to examine entrepreneurial priorities.

This section concludes by providing summative findings and contextualisation of the key results. Ultimately this chapter intends to display the key findings of the study and set the scene for detailed discussion in Chapter 6. An overview of research themes and statistical testing undertaken can be seen in Figure 13.

Figure 13 Chapter Segments and Analysis Utilised



5.1 Descriptive findings.

In total 208 questionnaires were returned, equating to a response rate of 67%. It is believed that electronic delivery of questionnaires contributed to this high response rate and non-respondents could be easily and quickly targeted. Moreover the researcher has been available to answer any doubts or queries from potential respondents as well as alleviate any concerns on the validity of the study via both email and telephone. This has further contributed to respondents being keen to participate in the survey. Freel and Harrison (2003) document that follow-up conversations did help improve some aspects of their response rates for their large scale study on manufacturing firms in the UK.

In addition to this, further segmentation of questionnaire returns were reviewed to ensure a reflective range of SME responses was received. Table 14 below displays the spread and percentage of questionnaire returns based upon SME size. The results indicate that the questionnaire returns are broadly reflective of the population.

Table 14 Response Rates

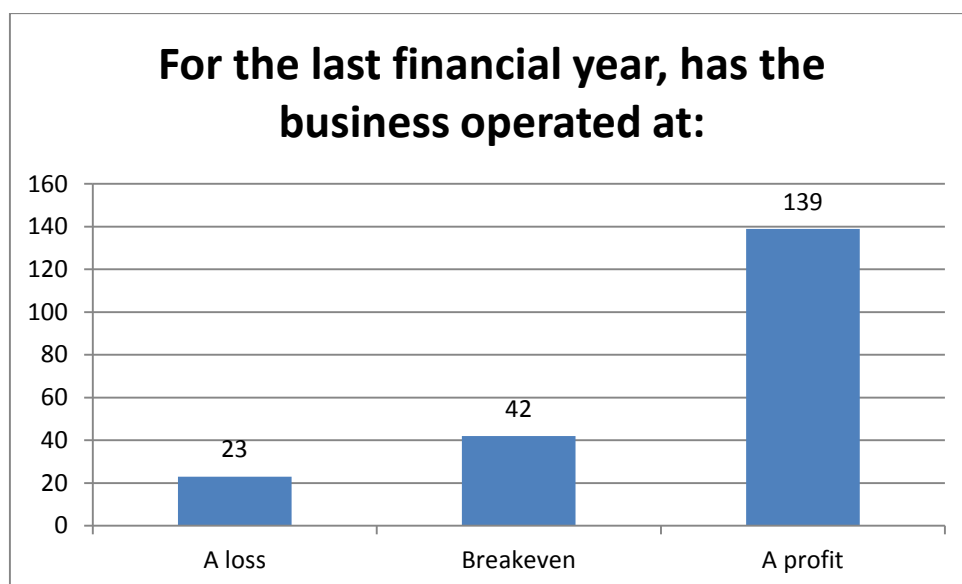
	Population		Sample Group		Response Rates	
Micro	427	31.5%	111	35.9%	73	35.1%
Small	403	29.7%	84	27.2%	56	26.9%
Medium	526	38.8%	114	36.9%	79	38%
	1356	100.0%	309	100.0%	208	100%

Further analysis was undertaken on individual firms on the FAME database to remove any responses from firms that did not correspond to sampling criteria. This additional reliability check ratified that financial and employee figures were drawn from businesses that matched their rural location. This element of data cleansing ensured that valid and robust data collection was conducted.

To assess the validity of the data collection, a test of internal reliability was undertaken. A Cronbach Alpha value of .764 was returned on the scale questions within the questionnaire. Two scale questions in particular seemed to affect the overall reliability of the construct and were therefore removed to improve the robustness of the dataset. These were the statements “mortgage on home” and “loan from bank.” Excluding these statements from the survey returned a much improved score of .840. However as 0.764 is still a reliable score for the internal construct of the questionnaire, it was decided that the value gained by the inclusion of mortgage on home and loan from bank outweighed the need for its exclusion.

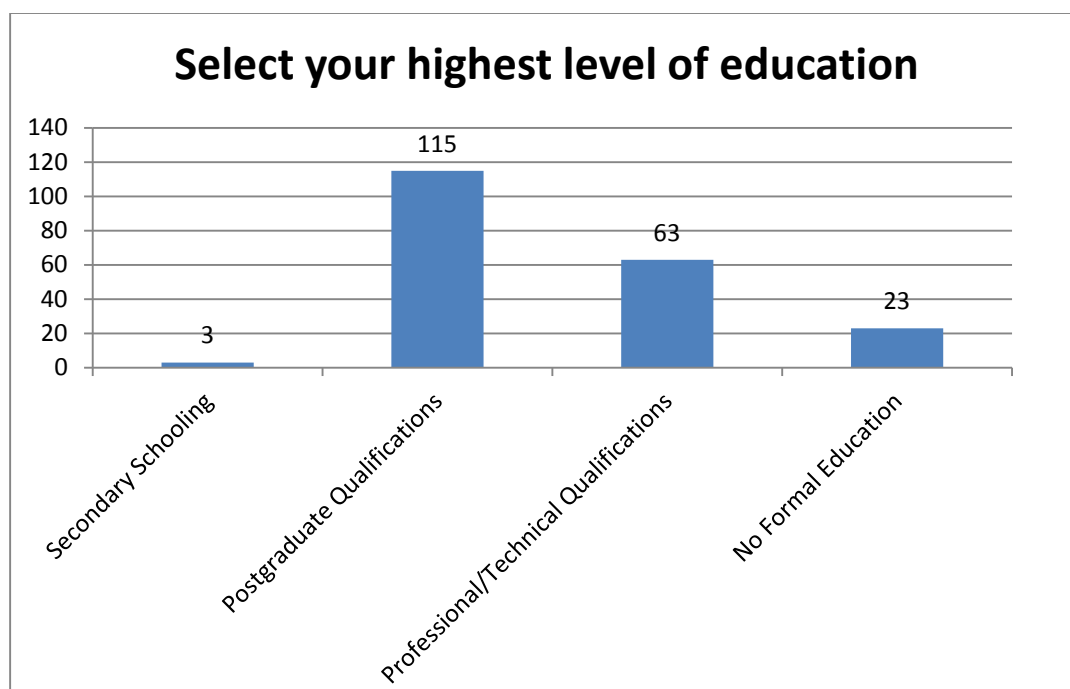
Other categorical variables were examined to provide additional contextual information to the study. The SMEs responses seem to provide a representation of firms at different levels of performance (see figure 14). While firms have been successful in terms of profitability, the responses also include firms that have been operating at breakeven or a loss in the previous financial year. This would provide the study with the ability to identify differences in catalyst for success against SMEs at different levels of performance.

Figure 14 Financial Performance



Interestingly, the majority of respondents had postgraduate qualifications as their highest level of qualification. This was followed by professional/technical qualifications.

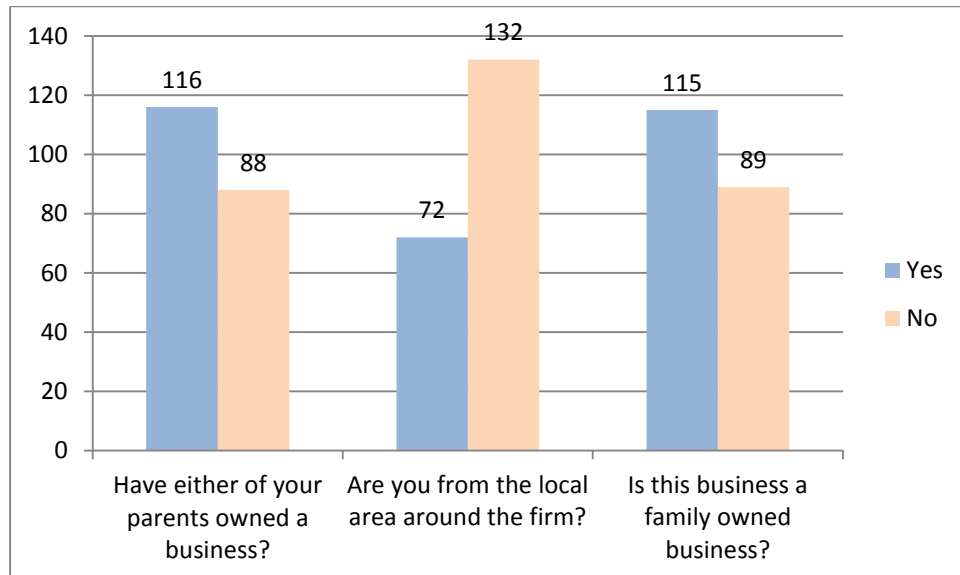
Figure 15 Level of Education



To further examine the demographic background of the entrepreneur respondents were asked to indicate if their parents had previously owned a business, if they were from the local area and if the current business was family owned. The spread of

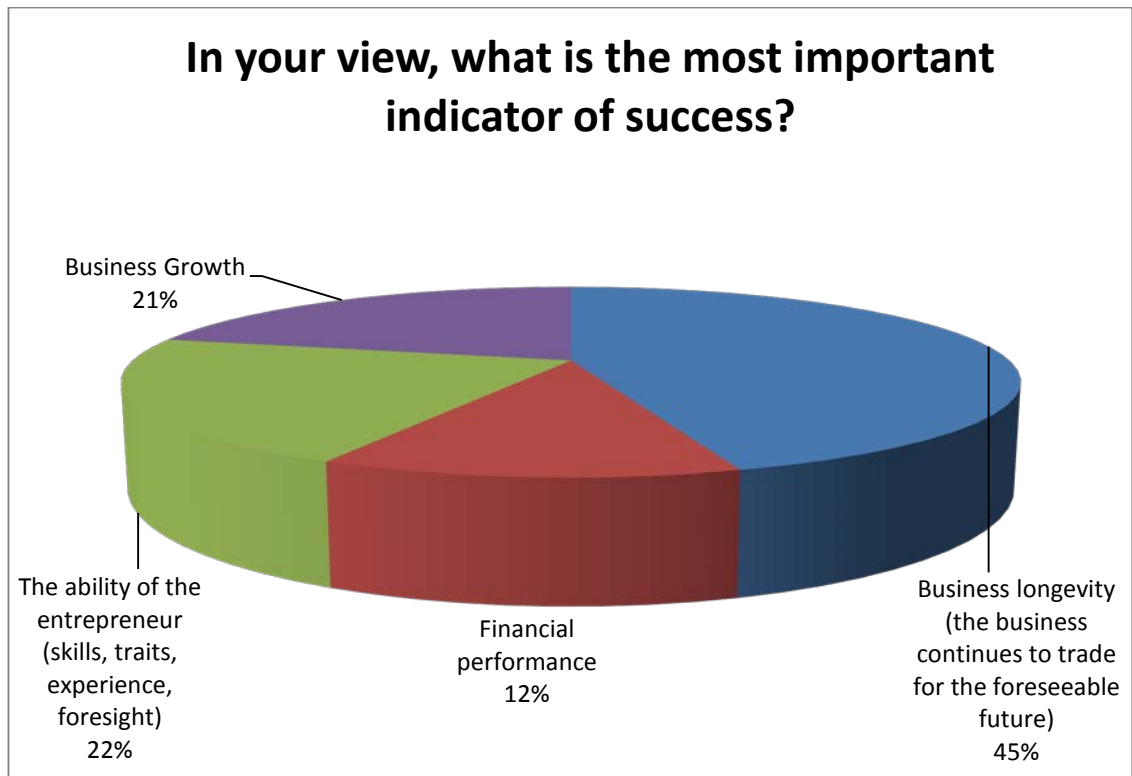
responses is fairly similar across previously owning a family business and the current business being family owned. The results also indicate that the majority of respondents were not from the local area of the firm.

Figure 16 Demographic Details of Respondents



It was also important to have an idea of the spread of responses with regards to what equates to business success. Respondents were asked to select what they felt was the most important indicator for their business with results indicating a reasonable spread of responses across ability of the entrepreneur and business growth with financial performance being the least highlighted option. Business longevity is particularly important with 92 or 45% of respondents selecting this as an important indicator of success (see Figure 17).

Figure 17 Indicators of Success



5.2 Research Theme 1 – Rural SME success and survival is linked to the entrepreneur’s background and ability

Storey (1994), Gaskill *et al.* (1993), Bridge *et al.* (2003) and Soriano and Castrogiovanni (2012) indicate the important role the entrepreneur plays in ensuring the firm’s success. This research theme seeks to review demographic information on the entrepreneurs to identify if differences in background such as age, education and their level of ownership affect the success of SMEs in a rural location. A chi-square test was undertaken to identify if certain nominal variables were associated with each other. The nominal or categorical variables for the purposes of this study were based on the entrepreneurs’ background and history (education, age and family history). The test was utilised to identify if any characteristics of the entrepreneur was linked to the financial performance in the previous year.

A chi-square test reviews the independence of two categorical variables and identifies if there exists an association between them (Field, 2013). Waters and Waters (2008) indicate that chi-square tests provide an indication of goodness of fit,

examining if the frequency of observations matches the expected frequencies. Field (2013), Waters and Waters (2008) and Waters (1994) further suggest the ability for a chi-square test to examine the association between variables and more specifically in the review of questionnaire data. For the purposes of this study, as the intention is to examine relationships between two variables, the usage of chi-square testing is to examine their interactions and independence (Adams and Lawrence, 2014).

The chi-square results indicate that there was a statistical link between the entrepreneurs' background and financial performance in the previous year. Statistically significant linkages were also uncovered in relation to the entrepreneur's parents previously owning a business ($X^2 (2, N=204) = 19.71, p < 0.05$), if they were from the local area ($X^2 (2, N=204) = 16.41, p < 0.05$) and if the business was still family owned ($X^2 (2, N=204) = 63.06, p < 0.05$). The results suggest that the familial background and drive of the family is linked to success of the business. This suggests that background experience alongside knowledge of the local area is related to ensuring business success. Powell and Eddleston (2012) have suggested that the availability of information, support and financial backing of family members can be highly useful in the success of SMEs. The chi-square results here suggest a similar paradigm within rural SMEs.

A further significant chi-square result was identified between financial performance and entrepreneur motivation. The results ($X^2 (2, N=204) = 68.43, p < 0.05$) suggest that financial performance is linked to the entrepreneurs desire to grow and develop the business through exploiting potential opportunities and if the business exists for personal financial reasons (financial security, wealth).

5.3 Family background

A t-test was further undertaken to examine if the entrepreneur's parents previous ownership of a business affected different elements of SME management. T-Tests are applied when trying to determine differences in mean scores between two nominal groupings. The tests allow examination of different preferences, levels of agreement and importance split within Likert scales split by two categorical

variables. A significance value of <0.05 indicates that there is statistically significant difference between the mean scores of the groups in their response to questions.

In relation to the category of an entrepreneur whose parents had previously owned a business a large number of variables returned with a statistically significant difference between the means. Table 15 below provides a detailed breakdown of issues.

All values in tables are statistically significant where shading has been placed on higher mean scores. Mean scores highlight agreement with the individual statements and are split by nominal categories. Table 15 for example split mean scores for respondents who did or did not have parents who owned a business.

In terms of financial focus it is clear that entrepreneurs whose parents had previously owned a business differed on a range of financial approaches. Only funding from private investors were important for entrepreneurs whose parents did not previously own a business.

In reviewing business considerations, sources of information, different approaches to management and the ideas around profitability, the results are similar to the above. It is entrepreneurs that have parents who had owned a previous business that differed in their priorities. This indicates that knowledge, experience and perhaps wisdom transfer has led to different considerations and approaches undertaken by the entrepreneur.

Table 15 T-Test results on family background		$p<0.05$			
Has either of your parents owned a business?		Yes		No	
		N	Mean	N	Mean
Financial Focus					
Funds drawn from other businesses		95	3.07	43	2.47
Funds from friends and family		74	4.28	24	3
Funds provided by co-founders / partners		87	4.24	64	3.64
Private investors		45	2.02	43	3.93
Grants from government agencies (UK / EU)		45	3.49	24	1.04
Business Considerations					
Suppliers		116	3.99	87	3.23
Employees		116	4.31	87	3.45
Customers and clients		116	4.47	88	4.14

Other business owners	116	4.31	68	3.41
Bankers / venture capitalists / business angels	99	3.56	86	2.26
Personal friends	97	4.42	87	4.02
From family members	116	3.96	67	2.66
Magazines / newspapers	116	3.98	70	3.07
Trade publications	116	4.18	68	3.66
Patent filings	66	3.33	48	2.6
Technical literature	116	3.8	70	2.74
Universities	116	4.18	46	2.5
My business will achieve my future expectations for it	115	3.4	88	2.98
Businesses like my own will similarly be able to succeed	115	3.63	88	3.2
My business is changing rapidly	115	4.36	88	3.95
The number of competitors will grow in the next 5 years	115	4.12	88	2.08
Growth in employee numbers is important to business survival	116	3.81	88	2.24
Profitability is key to business success	116	3.84	88	4.02
Good financial stability is important	116	4.34	66	4.92
The entrepreneur drives the business forward	116	4.96	88	3.97
Expanding the firm's market share is vital	116	4.35	88	3.26
Businesses which are able to engage and serve the local community well are more likely to survive	116	4.34	68	2.88
Good initial capital investment is important	116	4.21	88	3.92
A good product/service is vital for business success	116	4.79	88	4.14
Flexibility to adapt to external and internal forces is important	116	4.77	88	4.42
Flexibility to adapt to internal forces is important	116	4.44	88	3.73
A clear strategy/strategic intent enables business success	116	4.38	88	4.68
Having a firm position in the marketplace is vital	116	4	88	4.51
Understanding the locality is key	116	4.73	88	3.48
The local demographic affects business focus	87	4.25	88	3.75
Management structures in firms play a role towards success	116	4.82	88	3.52
Financial cash-flows need to be managed to enable business success	116	4.43	88	4.22
The quality of products/services should be utmost	93	5	88	4.73

The desire to grow and expand as well as seeking longevity differs when examined against responses from entrepreneurs whose parents owned a business or those whose parents did not. There seems to be stronger agreement across the board for entrepreneurs with familial experience of running a business.

Table 15 T-Test Results on family background continued		p<0.05			
Has either of your parents owned a business?		Yes		No	
		N	Mean	N	Mean
Business Size and Age					
A key indicator of success is the age/longevity of a business		116	4.38	88	2.93
A diverse range of products/services will enable a business to succeed		116	4.18	88	3.45
Year on year growth is a clear indicator of business health		116	4.36	88	3.98
The educational background of the entrepreneur plays a key role in business success		116	4.73	88	3.47
Importance should be placed upon marketing practices		116	4.24	88	3.97
A large business is more likely to succeed		87	3.79	88	2.48
Being innovative in business operations is vital to success		116	4.75	88	3.76
An established business is more likely to succeed		116	4.03	88	3.19
Managerial competence is a key element contributing to business success.		116	4.63	88	4.25
Business Closure					
If the performance of the business was too low in relation to my expectations		116	4	88	2.07
Due to Bankruptcy / liquidation / receivership		116	4.38	88	3.51
To realise a capital gain		116	4.01	88	3.48
If a better opportunity presented itself		114	4.25	86	3
Lack of leadership		114	4.17	88	3.68
Insufficient financial planning		116	4.37	88	4.18
Lack of growth		116	4.27	88	3.43
Being unable to embed themselves in the locality		116	4.62	88	2.91
Being based in a rural location		116	3.7	88	1.99

Likewise, similar results are recorded in business closure and the importance placed on a number of measures of business failure. There is stronger agreement on the measures by entrepreneurs whose had previous family experience of operating a business. There is seemingly a clear difference in approaches and priorities placed on the direction and management of the firm as a product of parents owning or not owning a family business (see table 15 continued).

5.4 Entrepreneur's Background

Table 16 T-Test on Entrepreneur's Background					
Are you from the local area around the firm?		Yes		No	
		N	Mean	N	Mean
Financial Focus					
Personal savings		51	3.98	112	3.14
Funds drawn from other businesses		50	3.58	88	2.49
Private investors		21	2	67	3.25
Business Considerations					
Suppliers		72	4.39	131	3.27
Employees		72	4.63	131	3.56
Customers and clients		72	4.58	132	4.18
Other business owners		72	4.61	112	3.57
Consultants		71	1.83	131	3.26
Bankers / venture capitalists / business angels		54	3.28	131	2.82
Personal friends		53	4.43	131	4.15
From family members		72	4	111	3.14
Magazines / newspapers		72	4	114	3.41
Technical literature		72	3.71	114	3.21
National government sources		51	3.18	108	3.77
Universities		71	4	91	3.47
Local enterprise / development agency (e.g. Business Link / TC / LEC)		51	2.29	111	3.59
My business will achieve my future expectations for it		71	4.01	132	2.79
Businesses like my own will similarly be able to succeed		71	3.72	132	3.3
My business is changing rapidly		71	4.9	132	3.8
The number of competitors will grow in the next 5 years		71	4.9	132	2.34
Growth in employee numbers is important to business survival		72	4.04	132	2.64
Profitability is key to business success		72	4.04	132	3.85
The entrepreneur drives the business forward		72	4.93	132	4.31
Expanding the firm's market share is vital		72	4.57	132	3.51
Businesses which are able to engage and serve the local community well are more likely to survive		72	4.25	112	3.52
Good initial capital investment is important		72	4.29	132	3.97
A good product/service is vital for business success		72	4.71	132	4.4
A clear strategy/strategic intent enables business success		72	4	132	4.79

Having a firm position in the marketplace is vital		72	4	132	4.34
Understanding the locality is key		72	4.57	132	3.98
The local demographic affects business focus		43	4.49	132	3.84
Management structures in firms play a role towards success		72	4.99	132	3.86
Financial cash-flows need to be managed to enable business success		72	4.71	132	4.14
The quality of products/services should be utmost		72	4.99	109	4.79

Another t-test was undertaken to identify if differences in mean scores existed if an entrepreneur was from the local area or an in-migrant. This enabled the examination of any differences in approaches as a product of the entrepreneur's experiences and knowledge of the local area (see table 16).

Unlike family background, statistically significant mean results were less clear when split by the origins of the entrepreneur. Entrepreneurs from the local area highlight the usefulness of information from a range of sources and the importance of a clear business strategy, structure and related investment. On balance, entrepreneurs from the local area were more in agreement with statements related to business considerations indicating a stronger consensus of approaches they felt aided business success.

In relation to business size and age, entrepreneurs from the local area rated more strongly on a number of measures except for employee loyalty and the linkage of a young to success (see table 16 continued). Entrepreneurs that were not from the local area considered these as more important for business success. This is perhaps linked to the endeavour of attaining a suitable workforce and the desire to grow into a large business which they also found important.

Interestingly, in terms of business closure, entrepreneurs from the local area were more in agreement towards a range of reasons for business closure, with the exception of external forces, which was rated more pertinent by entrepreneurs from outside the area. This could be beneficial to local entrepreneurs as it indicates their trust and knowledge of the local area as well as their focus to be strongly embedded

into the community. Their lower score on the effect of external forces seems to indicate an inherent trust in their ability to work within the community.

Table 16 T-Test on Entrepreneur's Background continued					
Are you from the local area around the firm?		Yes		No	
		N	Mean	N	Mean
Business Size and Age					
Employee loyalty is important for business success		72	3.71	131	4.14
A key indicator of success is the age/longevity of a business		72	4	132	3.62
Year on year growth is a clear indicator of business health		72	4	132	4.3
The educational background of the entrepreneur plays a key role in business success		72	4.56	132	3.98
A young business is less likely to succeed		72	2.47	132	3.15
A large business is more likely to succeed		43	3.47	132	3.02
Being innovative in business operations is vital to success		72	4.58	132	4.18
An established business is more likely to succeed		72	4	132	3.48
Business Closure					
If the performance of the business was too low in relation to my expectations		72	4.29	132	2.55
To realise a capital gain		72	4.29	132	3.5
If a better opportunity presented itself		70	4.69	130	3.18
External forces		72	4.29	132	4.47
Lack of growth		72	4.69	132	3.48
Being unable to embed themselves in the locality		72	4.68	132	3.45
Being based in a rural location		72	3.49	132	2.67

5.5 Research Theme 2 – Longevity of an SME is an indicator of success

Dobbs and Hamilton (2007) among others (Lu and Beamish, 2001; Sapienza *et al.*, 2006; Stuart, 2000; Ruzzier *et al.*, 2006; O'Gorman, 2001; Barringer and Jones, 2004) discuss the importance of longevity as a measure of success. They suggest that the business's ability to survive is a measure in itself of the firm's success and advocate a strong focus on longevity.

In a bid to understand how the issue of longevity is viewed by SMEs in a rural location an Analysis of Variances (ANOVA) was undertaken.

5.6 Analysis of Variances

ANOVAs are utilised to examine differences in mean scores split by nominal variables or groupings (Field, 2013). ANOVAs provide an approach to determine if differences in agreement, importance or satisfaction existed against nominal variables such as age group, education and other factors. Within this study, ANOVA provided a means to examine if different entrepreneur experiences and background affect success. Similarly the size of the SME, its legal status and performance are also examined.

Malhotra and Birks (2006) indicate that while ANOVA tests highlight statistical differences in mean scores between groups, the test does not pinpoint what or where these differences are. Toothaker (1993) discusses that ANOVA can be undertaken a priori or post-hoc, thus differences can be examined proactively or, more commonly, after ANOVA results are registered. The study utilises Tukey post-hoc analysis on statistically significant ANOVAs to identify where differences in mean scores lay. Post-hoc tests enable further examination of ANOVA results to statistically examine differences in scores providing indications of where groupings exist (Field, 2013). Other post-hoc tests were considered (Bonferroni, Duncan, Scheffe) but given Tukey tests are most commonly utilised and reported (see Hilton and Armstrong, 2006) it was decided that the approach was most viable. Similarly Toothaker (1993) highlights that as Tukey post-hoc analysis controls Type I errors better, the likelihood of inaccuracy is reduced. Field (2013) further indicates that as Tukey tests

are less likely to return a false positive and fits the testing of large numbers of means, usage of Tukey is the most plausible.

5.7 Longevity as a key to business success

An ANOVA was undertaken on Likert questions split by the entrepreneur's perceptions of measures of success. The results indicate a number of statistically significant differences between the mean when split by the options of business longevity, financial performance, ability of the entrepreneur and business growth.

All tables below display only results that have a statistical significant difference between the means ($p < 0.05$). Cells are coloured coded to indicate groupings of mean scores as identified by Tukey post-hoc results. Therefore in table 17 below, clusters exist between 'business longevity, financial performance and business growth' with mean scores that are statistically different to 'ability of the entrepreneur' when considering sales amount. This differs when considering business survival where clusters exist with 'business longevity and financial performance' against 'ability of the entrepreneur and business growth.' Mean scores are reviewed with clusters in mind. Therefore while scores are not mathematically dissimilar, the statistical significant clusters indicate grouping of perceptions to exist within the dataset.

Table 17 below indicates that the ability of the entrepreneur plays less of a role when considering sales amount, gross profit, business survival or enhancing the reputation of the business. This suggests that the ability of the entrepreneur plays only small role in enabling longevity of an SME.

Tukey post-hoc results also indicate a slight clustering in the indicators of success against the importance of sales amount and gross profit. The results indicate that sales amount and gross profit are more vital when entrepreneurs consider the importance of business longevity, financial performance and business growth. Similarly, the results also suggest that respondents who thought the ability of the entrepreneur was important for success had lower importance placed on sales and gross profit.

This suggests that sales amount and gross profit are important for longevity of a business. This desire is also clustered with financial performance and growth, suggesting a focus on all three elements is part of enabling business success.

Table 17 below highlights all significant differences with $p < 0.05$.

	Business Longevity	Financial Performance	Ability of the entrepreneur	Business Growth
Sales amount	3.96	4.00	2.95	4.00
Gross profit	3.96	4.00	3.00	4.07
Business survival	4.74	4.96	3.43	3.53
Reputation of the business	4.97	4.04	3.95	5.00

Results in table 17 further indicate that entrepreneurs who are concerned with business survival were driven towards business longevity and financial performance. This posits a clustering effect where longevity and financial performance are business considerations that need to be applied when seeking business survival. Interestingly, entrepreneurs focusing on business growth placed less priority on business survival. In terms of reputation of the business, respondents who were keen for business longevity and business growth placed more importance on this.

Table 18 Financial Considerations	Business Longevity	Financial Performance	Ability of the entrepreneur	Business Growth
Funds provided by co-founders / partners	3.65	4.96	3.48	5.00
Private investors	2.05	2.00	3.00	5.00

In terms of financial considerations (table 18), Tukey post-hoc tests reveal differences between the groups to exist with ability of the entrepreneur and longevity against financial performance and business growth. The results indicate that financial performance and business growth is more strongly linked to the importance of funds sought from co-founders and partners. Interestingly, longevity is less focused on this and is instead clustered with the ability of the entrepreneur. This suggests that rural firms need to look to their entrepreneur to drive the business forward when funded by co-founders/partners. Similarly, if seeking to be funded by private investors, the ability to demonstrate growth and entrepreneurial ability would be beneficial.

The financial findings reviewed alone seem to be disjointed, but considering the results on overall business considerations, business growth is only important in a

handful of settings. For example extending the product range of a firm still requires flexibility to adapt to the external environment. This suggests that while business growth is important firms still have to weather the existing external forces.

In terms of business longevity as a key focus, the majority of business considerations below are significantly important (see table 19). Of note is the statement “businesses which are able to engage and serve the local community well are more likely to survive.” This is the only statement where firms focusing on longevity are different from all other options. The results indicate that being embedded and working closely within a local community is vital for longevity of a firm.

Table 19 Business Considerations	Business Longevity	Financial Performance	Ability of the entrepreneur	Business Growth
Businesses like my own will similarly be able to succeed	3.78	3.04	3.00	3.47
Growth in employee numbers is important to business survival	3.59	3.84	2.39	2.51
The entrepreneur drives the business forward	4.93	4.96	3.95	4.00
Businesses which are able to engage and serve the local community well are more likely to survive	4.40	3.92	3.43	3.86
A good product/service is vital for business success	4.72	4.84	3.95	4.44
Flexibility to adapt to internal forces is important	4.09	4.84	3.95	4.00
A clear strategy/strategic intent enables business success	4.22	4.96	4.48	4.91
Having a firm position in the marketplace is vital	4.22	4.08	4.00	4.53
The quality of products/services should be utmost	5.00	4.50	4.48	5.00

Personal friends as a source of information is strongly valued for financial performance with a mean of 4.79 which is in stronger agreement than the other options (see table 20 below).

Table 20 Sources of Information	Business Longevity	Financial Performance	Ability of the entrepreneur	Business Growth
Suppliers	4.25	3.88	1.95	4.05
Customers and clients	4.62	3.76	3.43	4.93
Other business owners	4.02	3.80	3.48	4.96
Personal friends	4.30	4.79	3.98	4.07
Technical literature	3.72	4.04	2.95	2.95
Universities	4.00	4.00	3.95	2.00

There is little consistency when examining the effect different sources of information have on defining business success (table 20). It could be suggested that different approaches to firm success value different sources of information.

Table 21 Business size and age	Business Longevity	Financial Performance	Ability of the entrepreneur	Business Growth
A diverse range of products/services will enable a business to succeed	4.22	3.92	3.95	3.00
The educational background of the entrepreneur plays a key role in business success	4.68	4.68	4.48	2.53
A young business is less likely to succeed	2.62	3.80	3.52	2.40

When considering the range of product/service options and educational background clusters exist between the role of financial performance, ability of the entrepreneur and business longevity as approaches to business success (table 21). Business growth on the other hand places less importance on diversity of product/service range and also indicates that the educational background of the entrepreneur can contribute little to expanding the business. This indicates that a wide portfolio of products or service would not create a successful SME if growth was the key focus, suggesting that too wide a range would be detrimental. Similarly, as the business grows less priority is placed on the entrepreneur's role.

Table 22 Business failure	Business Longevity	Financial Performance	Ability of the entrepreneur	Business Growth
To realise a capital gain	4.02	4.00	3.00	3.93
Lack of leadership	4.20	4.00	2.89	4.51

The 'ability of the entrepreneur' is particularly differentiated here, as all other measures of business success indicate the importance of realising a capital gain and good leadership (table 22). It could be argued that if an entrepreneur places too much priority on his or her wants and is particularly stubborn to clear indicators of failure then business closure would be likely. Contrastingly, it could also be suggested that the desire for an entrepreneur to be steadfast and drive the business ahead regardless of performance, is a clear entrepreneurial trait.

Ultimately the findings suggest that should a firm seek business longevity there are a number of elements and measures where priorities should be placed. The results also

suggest where growth is sought, financial and entrepreneurial ability should be placed in tandem. Nonetheless, collectively it is interesting to note the limited focus and priorities placed upon the ability of the entrepreneur. This suggests that to ensure longevity, the ability of the entrepreneur plays less of a role.

There is potential that different priorities may lead to difference in desires of the firm. As such the context of business direction has to be appropriately considered. A change in business direction could inevitably lead to different prioritisation of success factors, where perhaps the ability of the entrepreneur takes precedence. As suggested by Datta *et al.* (2010), contextual changes may alter the outcomes and with it the priorities that should be placed on the different factors affecting SME success.

It further suggests a clustering of approaches to exist by rural entrepreneurs. In terms of longevity, less importance is placed on the ability of the entrepreneur suggesting that as the business continues operating other avenues that enable survival need to be considered. Interestingly when reviewed against a focus on survival as important for longevity, financial performance is indicated as vital. In contrast to this, a focus on reputation of the business is linked to longevity and business growth. The results suggest some linkage of longevity to growth and financial performance alongside how monitoring sales and gross profit would aid in this.

As firms grow or survive, overall control and power on the part of the entrepreneur needs to be released or diluted to enable the business to flourish in the longer term without the restrictions of the past (Gilding *et al.*, 2015; Smith, 1992; Peay and Dyer, 1989). For example, Leroy *et al.* (2015) suggest the strong emotional attachment to firms that entrepreneurs have would make it hard for them to 'let go of their firms'. Indeed it is common for entrepreneurs to be no longer motivated in the long term requiring new ideas and new 'blood' to reinvigorate the business. The results also suggest that the entrepreneur may have to relinquish some control in order for the business to continue to operate in the long term.

5.9 Research Theme 3 – There are clear factors that contribute to SME success in a rural location.

This research theme examines the different elements that could contribute to rural SME success. In particular it focuses upon the size of the firm, the potential of innovation and if clarity in business direction facilitates success. Coad (2013) and Falk (2008) discuss how the size of SMEs is often overlooked and the nature of mass affects the propensity for success.

Gray *et al.* (2012) discuss the importance of innovation and the vast number of innovative approaches that would aid in the delivery of business goals. Similarly Forsman (2008) advocate how clarity in business direction enables a shared vision to drive the business forward. These insights from the literature have been developed into the sub-themes below.

To examine these issues in the context of rural SMEs, the following three sub-themes were utilised:

Research theme 3a – SME size affects success

Research theme 3b – Innovation affects success

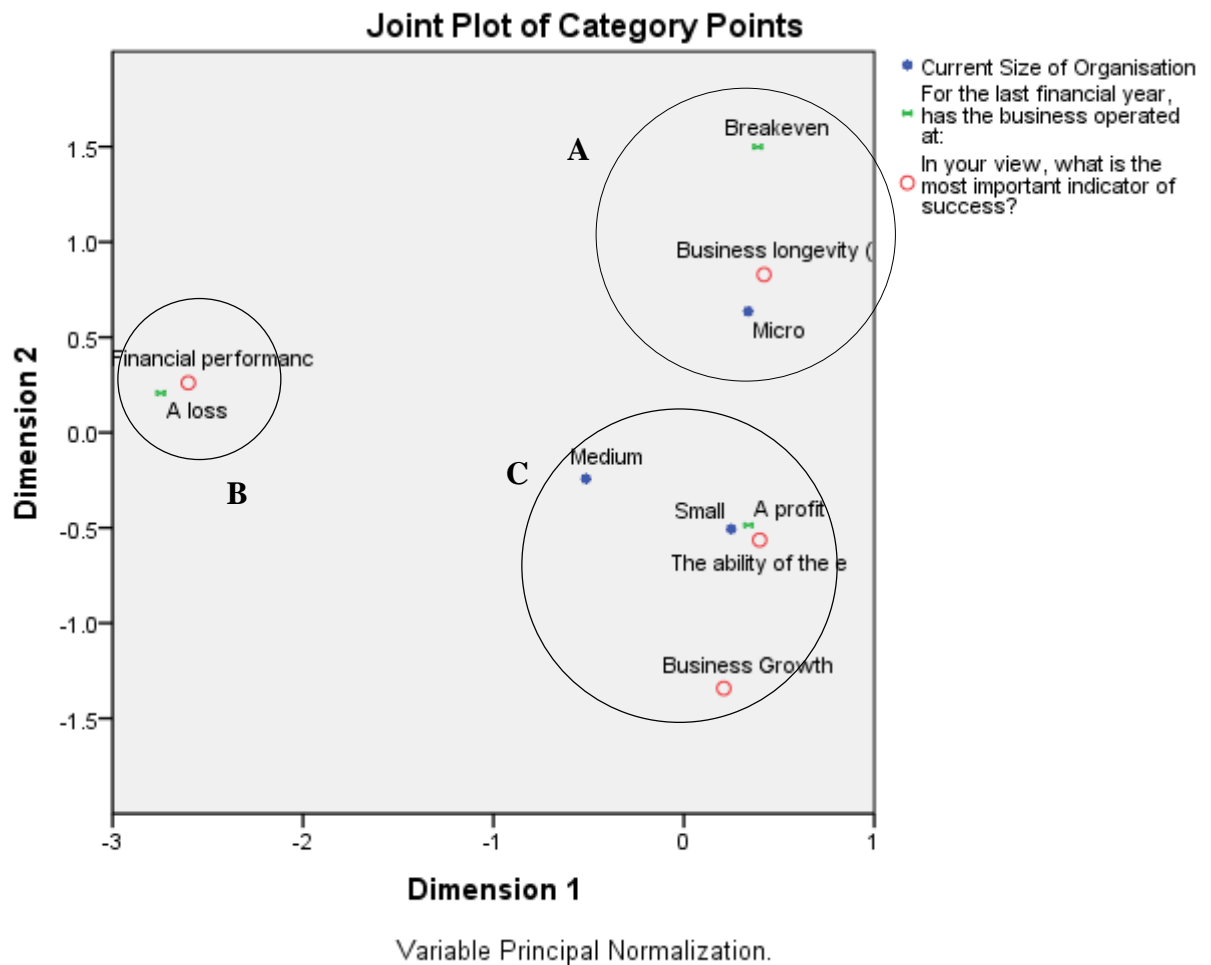
Research theme 3c – Business direction affects success

5.9.1 Research Theme 3a – SME sizes affects success in a rural location

In the review of SME size, financial performance last year and the most important indicator of success a number of clusters were revealed by HOMALs. A HOMALs test is undertaken on a number of categorical variables that reflect the background of the entrepreneur to examine in more detail the existence of more specified linkage of issues. HOMALs or Multiple Correspondence Analysis (MCA) examines the association and identifies clustering and closeness of related variables (IBM, 2013).

HOMALs testing allow identification of clusters of variables thereby examining if certain variables are associated to each other. This provides opportunities to identify the existence of relationships within categories emanating from nominal questions.

Figure 18 Multiple Correspondence Analysis Plots



The results suggest that firms that had broken-even were often micro in size and were keen to focus upon business longevity (Cluster A). Loss-making SMEs were focused on financial performance as an indicator of success (Cluster B). Firms that returned a profit were often small and medium in size and were keen to facilitate business growth (Cluster C). They further highlighted that success was based on the ability of the entrepreneur (Cluster C).

The clusters suggest that size is associated with potential for SME success when measured against financial performance.

To further examine the effects of size, Section 4 of the questionnaire was reviewed via ANOVA testing utilising the SME sizes of micro, small and medium to identify differences in mean scores.

Table 23 ANOVA – Key Performance Elements Section						
		Sum of Squares	df	Mean Square	F	Sig.
Sales amount	Between Groups	24.746	2	12.373	23.686	.000
	Within Groups	104.999	201	.522		
Sales growth rate	Between Groups	4.379	2	2.189	3.288	.039
	Within Groups	133.188	200	.666		
Cash flow	Between Groups	12.792	2	6.396	9.657	.000
	Within Groups	133.129	201	.662		
Return on shareholders' equity	Between Groups	54.811	2	27.406	31.518	.000
	Within Groups	174.772	201	.870		
Net profit	Between Groups	8.450	2	4.225	4.581	.011
	Within Groups	185.374	201	.922		
Business survival	Between Groups	50.399	2	25.200	29.835	.000
	Within Groups	169.772	201	.845		
Reputation of the business	Between Groups	8.123	2	4.061	8.995	.000
	Within Groups	90.755	201	.452		
Employee job security	Between Groups	5.088	2	2.544	6.860	.001
	Within Groups	74.539	201	.371		
Employment for family members	Between Groups	20.082	2	10.041	13.152	.000
	Within Groups	153.462	201	.763		

Table 23 above highlights all significant ANOVA returns ($p < 0.05$) related to key performance issues segmented by SME size. In order to identify specific differences in mean scores a Tukey post-hoc test was further undertaken.

Please note that only significant clusters identified by Tukey post-hoc testing are discussed below (table 24 and 25). The horizontal headings indicate the issue being examined with the vertical axis displaying the grouping variables where mean scores are split. The numbers 1 and 2 display the clusters, either falling under grouping 1 or grouping 2. As in Section 5.7, mean scores are reviewed with clusters in mind. Therefore while scores are not vastly mathematically dissimilar, the statistical significant clusters indicate grouping of perceptions to exist within the dataset. For example table 24 below displays groupings of mean responses. In the review of sales amount two groupings of means are identified with small and medium firms falling under group 1 and micro firms in group 2.

Table 24 Tukey HSD Results													
Current Size of Organisation	N	Sales Amount		Net Profit		Business Survival		Reputation of the business		Employee job security		Employment for family members	
		1	2	1	2	1	2	1	2	1	2	1	2
Small	56	3.45		3.86		3.77		4.55		3.95		3.48	
Medium	75	3.53		3.89		3.93		4.45		4.03		3.65	
Micro	73		4.22		4.3		4.89		4.90		4.32		4.22

The results indicate differences in mean scores by small and medium sized SMEs against micro firms. Table 24 indicates that micro firms placed more importance on the amount of sales generated, net profit, business survival, reputation of the business, employee security and employment for family members. The findings are interesting in that they highlight a more diverse range of pressure that exists for micro firms. Their size and position in the market seemingly requires them to pay more attention to a wide range of issues. This not only suggests that micro firms can be spread rather thinly but perhaps a lack of directionality in the aims of the business. This has inevitably added further pressure on micro firms. For instance, in terms of business survival it is micro firms that returned a mean score of 4.89, indicating strong levels of importance. This is true as Watson (2012) and Ejrnaes and Hochguertel (2013) discuss SME survival is often most difficult at its earliest and smaller stages.

It is also important to note a strong focus by micro SMEs upon the reputation of the business. Although the mean scores of all firms leaned toward strongly important on the element, micro firms were the strongest at 4.90.

Employment for family members is a further novel finding. Powell and Eddleston (2012) and Wayne *et al.* (2007) discuss that it is often that family members aid and constitute the workforce of SMEs during start-up. Often micro firms remain as a family business, hence perhaps the stronger importance placed on this element by them against small and medium businesses.

Table 25 Sales growth rate

Tukey HSD^{a,b}

Current Size of Organisation	N	Subset for alpha = 0.05	
		1	2
Medium	75	3.40	
Micro	73	3.62	3.62
Small	55		3.76
Sig.		.280	.553

Interestingly, on some measures, questionnaire responses revealed different priorities placed. For example, the sales growth rate was more valued by small firms, with medium sized firms placing less importance. In tandem, with results in table 24, potentially micro firms are more focused on sales amounts, where small firms are keen to have sales growth. The results posit that the ‘larger’ medium firms place less importance on this.

Table 26 ANOVA – Financial Focus Section

		Sum of Squares	df	Mean Square	F	Sig.
Personal savings	Between Groups	15.081	2	7.540	4.637	.011
	Within Groups	260.195	160	1.626		
Funds drawn from other businesses	Between Groups	4.242	2	2.121	4.217	.017
	Within Groups	67.903	135	.503		
Funds provided by co-founders / partners	Between Groups	5.553	2	2.776	4.867	.009
	Within Groups	84.421	148	.570		
Mortgage on home	Between Groups	59.211	2	29.605	48.443	.000
	Within Groups	70.281	115	.611		
Loans from bank	Between Groups	9.583	2	4.792	17.894	.000
	Within Groups	36.417	136	.268		
Grants from government agencies (UK / EU)	Between Groups	47.728	2	23.864	27.055	.000
	Within Groups	58.214	66	.882		

The table above highlights all significant ANOVA returns ($p < 0.05$) related to financial considerations segmented by SME size. In order to identify specific differences in mean scores a Tukey post-hoc test was further undertaken.

Table 27 Tukey HSD Results							
Current Size of Organisation	N	Mortgage on home		Loans from bank		Grants from government agencies (UK / EU)	
		1	2	1	2	1	2
Small	56	1.92		1.72		1.79	
Medium	75	2.23		1.87		2.07	
Micro	73		3.70		2.35		3.67
Sig.		0.77	1.00	0.40	1.00	0.86	1.00

Interestingly, micro firms highlighted ease in obtaining funds through mortgages, bank loans and grants from government agencies. Blanchard (2015) and FSB (2012) discuss the importance that SMEs have on the economy alongside current desires to foster growth through entrepreneurship. Thus, it is foreseeable that, alongside current government agendas, bank loans and grants are more accessible to SMEs starting up. Start-up firms are often those with micro employee numbers.

Table 28 Tukey HSD Results							
Current Size of Organisation	N	Personal Savings		Funds drawn from other businesses		Funds provided by co-founders / partners	
		1	2	1	2	1	2
Small	56	3.46	3.46	2.58		4.00	4.00
Medium	75	3.05		2.80	2.80	4.18	
Micro	73		3.76		3.04		3.72
Sig.		0.40	1.00	0.86	1.00	0.77	1.00

Micro firms still exhibit significant difference in means against small and medium companies. In terms of personal savings and funds drawn from other businesses, micro firms seem to find it easier to source funding. This could be due to initial setup or capital investment funding being available.

Only in terms of funding provided by co-founders / partners do micro firms find more difficulty in sourcing resources. Here, medium sized businesses displayed the highest mean score of the group in terms of ease of accessing this source of funding.

This does match conventional wisdom as medium firms would have larger numbers of individuals working at the firm, thus providing wider potential of funding by its own partners.

Table 29 ANOVA – Business Considerations Section

		Sum of Squares	df	Mean Square	F	Sig.
Suppliers	Between Groups	11.916	2	5.958	4.148	.017
	Within Groups	287.305	200	1.437		
Employees	Between Groups	13.767	2	6.883	9.332	.000
	Within Groups	147.524	200	.738		
Customers and clients	Between Groups	28.605	2	14.302	14.516	.000
	Within Groups	198.042	201	.985		
Consultants	Between Groups	17.982	2	8.991	4.056	.019
	Within Groups	441.132	199	2.217		
Bankers / venture capitalists / business angels	Between Groups	30.097	2	15.048	12.537	.000
	Within Groups	218.465	182	1.200		
Personal friends	Between Groups	5.384	2	2.692	6.808	.001
	Within Groups	71.567	181	.395		
Magazines / newspapers	Between Groups	7.540	2	3.770	7.900	.001
	Within Groups	87.326	183	.477		
Patent filings	Between Groups	9.033	2	4.517	3.636	.030
	Within Groups	137.888	111	1.242		
Technical literature	Between Groups	30.636	2	15.318	25.002	.000
	Within Groups	112.122	183	.613		
National government sources	Between Groups	35.052	2	17.526	21.077	.000
	Within Groups	129.716	156	.832		
Universities	Between Groups	36.185	2	18.093	33.610	.000
	Within Groups	85.592	159	.538		
My business will achieve my future expectations for it	Between Groups	19.454	2	9.727	6.420	.002
	Within Groups	303.009	200	1.515		
Businesses like my own will similarly be able to succeed	Between Groups	27.232	2	13.616	35.429	.000
	Within Groups	76.866	200	.384		
Profitability is key to business success	Between Groups	4.095	2	2.047	6.098	.003
	Within Groups	67.488	201	.336		
Good financial stability is important	Between Groups	8.003	2	4.001	14.029	.000
	Within Groups	51.052	179	.285		
The entrepreneur drives the business forward	Between Groups	17.537	2	8.768	21.682	.000
	Within Groups	81.287	201	.404		
Businesses which are able to engage and	Between Groups	44.873	2	22.436	19.516	.000

serve the local community well are more likely to survive	Within Groups	208.084	181	1.150		
A good product/service is vital for business success	Between Groups	17.856	2	8.928	17.746	.000
	Within Groups	101.124	201	.503		
Flexibility to adapt to external and internal forces is important	Between Groups	7.941	2	3.971	12.425	.000
	Within Groups	64.235	201	.320		
Flexibility to adapt to internal forces is important	Between Groups	32.486	2	16.243	40.336	.000
	Within Groups	80.940	201	.403		
Understanding the locality is key	Between Groups	17.797	2	8.898	9.232	.000
	Within Groups	193.747	201	.964		
The local demographic affects business focus	Between Groups	10.120	2	5.060	5.184	.007
	Within Groups	167.880	172	.976		
Financial cash flows need to be managed to enable business success	Between Groups	9.687	2	4.844	11.876	.000
	Within Groups	81.975	201	.408		
The quality of products/services should be utmost	Between Groups	1.250	2	.625	5.685	.004
	Within Groups	19.568	178	.110		

Table 29 above highlights all significant ANOVA returns ($p < 0.05$) related to business considerations issues segmented by SME size. In order to identify specific differences in mean scores a Tukey post-hoc test was further undertaken.

Table 30 Tukey HSD Results													
Current Size of Organisation	N	Employees		Customers and Clients		Personal Friends		Newspapers/magazines		Technical literature		Universities	
		1	2	1	2	1	2	1	2	1	2	1	2
Small	56	3.77		4.11		4.43		3.50		3.00		3.29	
Medium	75	3.73		4.00		4.32		3.51		3.26		3.47	
Micro	73		4.29		4.82		4.03		3.95		4.00		4.39

Similar to other findings on SME size, it is the micro firm that places higher priority and indicative usefulness of information coming from the above sources with the exception of personal friends. The findings suggest that micro firms are keen to exploit as best as possible information from a range of sources to identify business opportunities. This could indicate two key considerations for SME operation. One that micro firms are keen to utilise all sources of information to ensure success and

secondly that small and medium sized firms, while indicating some level of importance, are more settled in their approaches to information gathering.

The only element where this notion differs is in relation to information sourced through personal friends. Small and medium businesses placed more usefulness on this in comparison to micro firms. While all mean scores were 4 and above, the two 'larger' sizes of small and medium had higher scores that were statistically significant.

Of interest is also in the application of information from customers and clients. While the micro firm places the strongest importance on this, both small and medium firms have also returned with scores of 4.11 and 4.00 respectively. This indicates that all SMEs view this source of information as useful.

Table 31 Tukey HSD Results													
Current Size of Organisation	N	Businesses like my own will similarly be able to succeed		Good financial stability is important		The entrepreneur drives the business forward		Businesses which are able to engage and serve the local community well are more likely to survive		A good product/service is vital for business success		Flexibility to adapt to external and internal forces is important	
		1	2	1	2	1	2	1	2	1	2	1	2
Small	56	3.14		4.75		4.25		3.33		4.18		4.38	
Medium	75	3.19		4.69		4.36		3.48		4.39		4.56	
Micro	73		3.93		4.29		4.92		4.42		4.89		4.86

In the review of business considerations, similar differences were identified. Seemingly micro firms differed in their considerations and approaches to business management when compared to small and medium companies.

In all, except one element do micro firms highlight stronger levels of agree in comparison to small and medium businesses. While all SMEs surveyed indicated agreement on the various business considerations and approach, it was micro firms that had higher mean scores that were statistically significant. The results suggest

that while all SMEs consider these issues, micro firms value these more so and are perhaps more likely to apply such approaches to their business operations.

For the statement, good financial stability is important, this trend differs as small and medium sized firms seem to value this greater than micro companies with scores of 4.75 and 4.69 respectively. The difference could exist as small and medium firms seek to solidify their current position. Similarly the costs involved with bigger employee numbers require careful financial considerations and stability.

Table 32 Tukey HSD Results											
Current Size of Organisation	N	Flexibility to adapt to internal forces is important		Understanding the locality is key		The local demographic affects business focus		Financial cash flows need to be managed to enable business success		The quality of products/ services should be utmost	
		1	2	1	2	1	2	1	2	1	2
Small	56	3.73		3.88		3.77		4.18		4.83	
Medium	75	3.92		4.05		3.93		4.17		4.78	
Micro	73		4.66		4.58		4.38		4.63		4.97

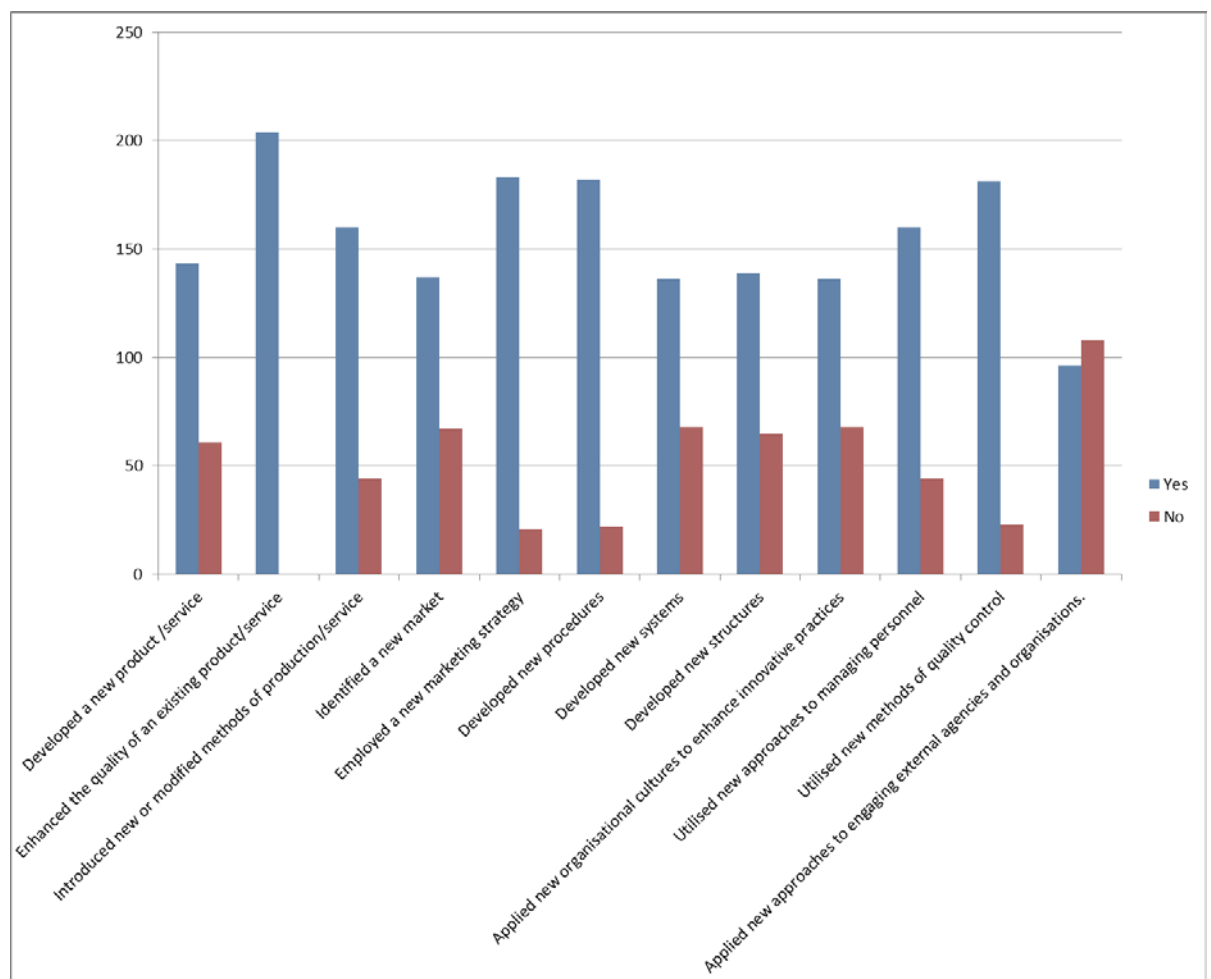
Similar to the findings above, micro firms once again differ from small and medium sized businesses in their business considerations. The level of agreement is statistically stronger from micro firms. Potentially the demands and stress of micro firms to compete and become successful requires increased focus on these business considerations. Seemingly flexibility, cash flow, products and services alongside understand their customer group is vital for them. It is also important to note that while micro firms are more strongly in agreement with these statements, all firm sizes also highlighted their importance to them. The pressures on micro SMEs are evidently stronger.

5.9.2 Research Theme 3b – Innovation affects success

This research theme examines the effect innovation has on rural SME success. Freel (2000) and McAdam *et al.* (2014) stress how innovation and change are part of the lifecycle of the firm and undertaking appropriate steps to do so will enable continued attraction of customers.

Respondents were asked to select if a range of innovative approaches had been undertaken at their businesses recently. The overriding majority indicated a strong usage of innovation in their SMEs. Figure 19 displays that on all except one measure did entrepreneurs indicate innovation. Interestingly, entrepreneurs did not or were not as keen to innovate through engagement with external agencies and organisation. As suggested by Rosenbusch *et al.* (2011), the usage of external agencies may in fact overburden SMEs instead of providing benefits.

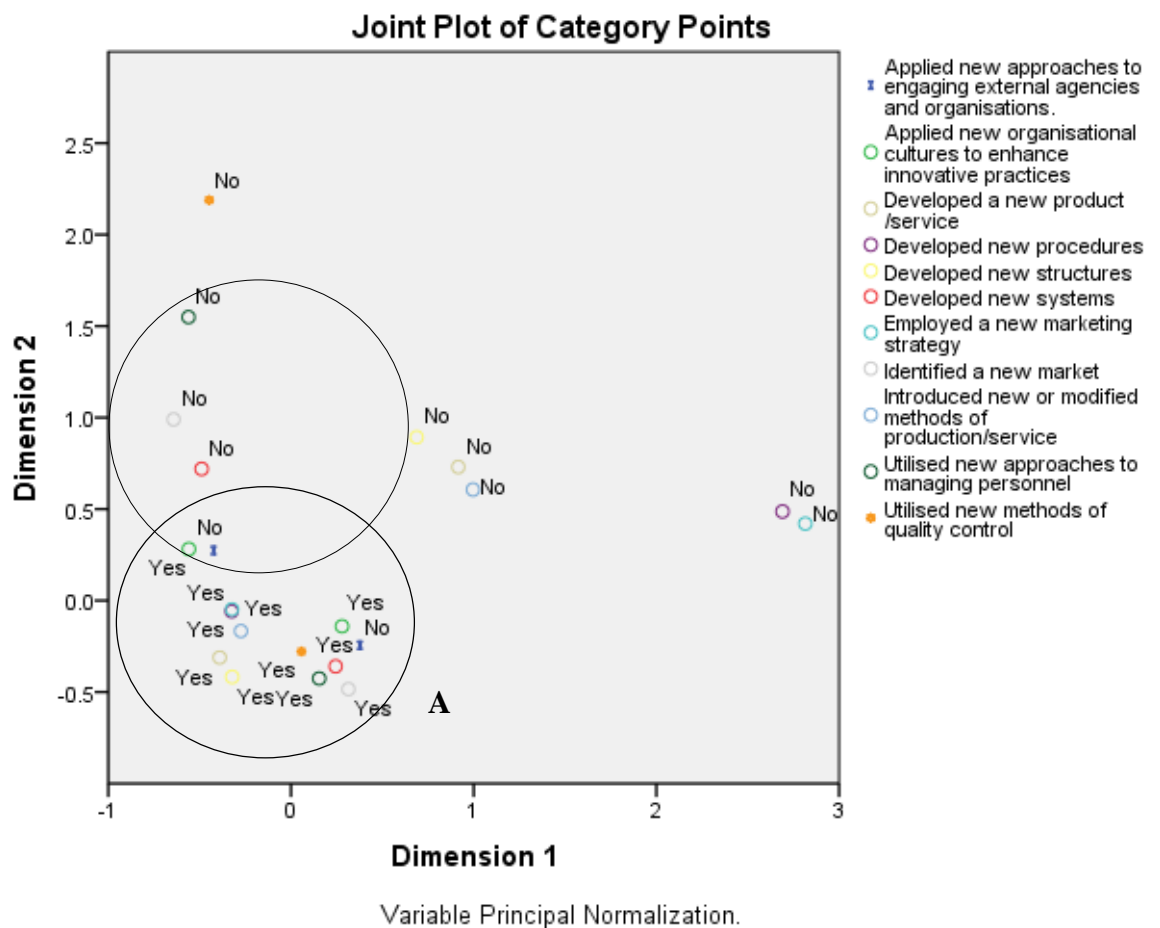
Figure 19 Responses to usage of innovative approaches



Nonetheless, what is clear from the findings is the importance placed on enhancing the quality of an existing service or product, with a unanimous positive response.

HOMALs analysis was applied to examine if different innovative approaches by SMEs had similarities or clustering. The results here indicate that innovative approaches such as new procedures, structures, systems, product and marketing are strongly clustered to each other (see Cluster A in Figure 20). This posits that usage of a particular approach is related to usage of another. The results suggest that innovation is undertaken in many forms and often a range of approaches are applied simultaneously.

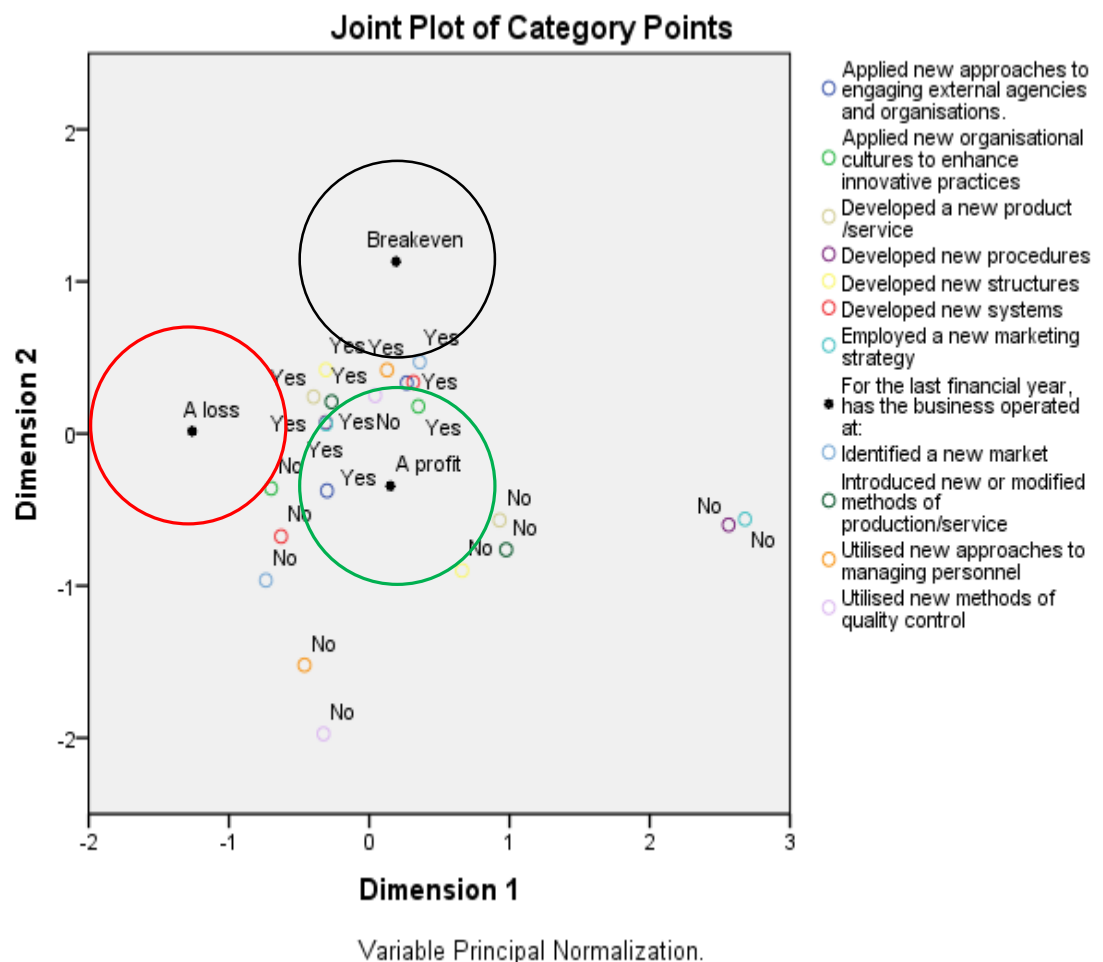
Figure 20 Multiple Correspondence Analysis Plots



‘Engaging external agencies and organisations’ is an approach to innovation that is less consistently applied, with both ‘Yes’ and ‘No’ responses clustered within the group (circle A). The results indicate that more tangible forms of innovation seem more prevalent. The complexity of intangible and often difficult to change

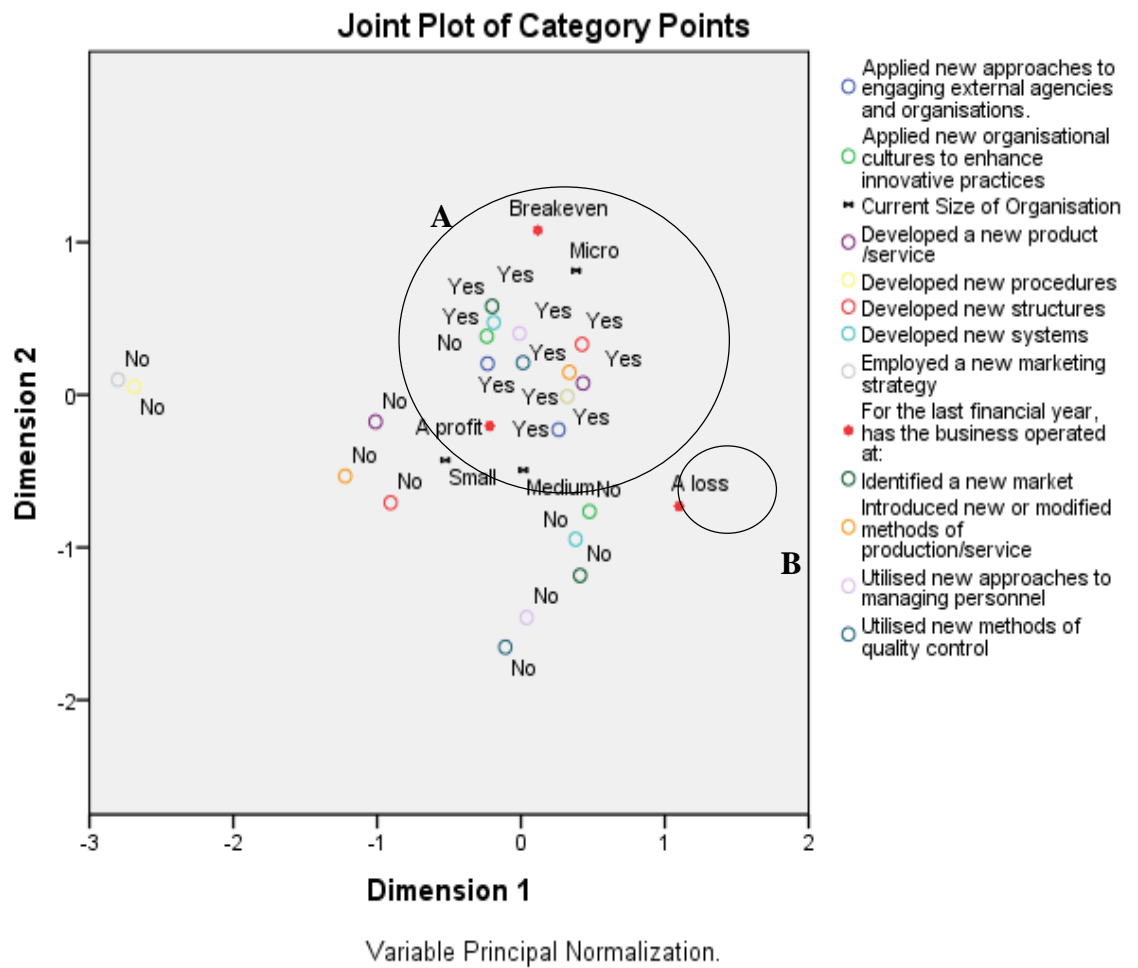
organisational cultures is perhaps viewed with less interest. More structured and traditional forms of innovation through product, systems and new market development provide a more ‘direct’ approach.

Figure 21 Multiple Correspondence Analysis Plots



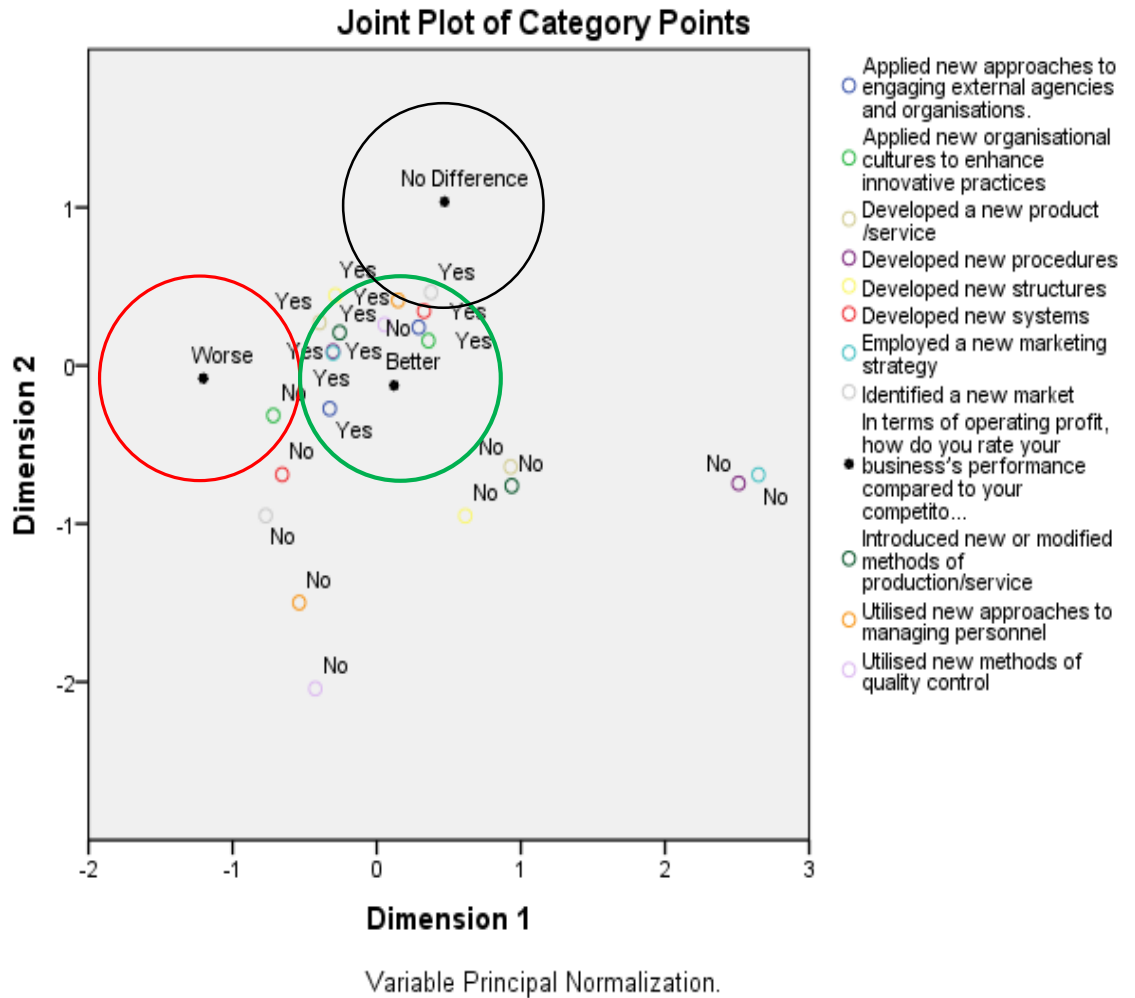
Incorporating an additional variable of performance in the last financial year provided some interesting findings. The additional values of loss, breakeven and profit reveal different performances as a potential product of innovation. HOMALs plots reveal that innovative approaches does cluster around profitability (green circle) and breakeven (black circle) which indicates that appropriate innovation practices are useful. What is also revealed from the results is that innovative practices are not far from potential losses as indicated by the closeness of the red circle to the clusters.

Figure 22 Multiple Correspondence Analysis Plots



In reviewing innovation and success alongside the inclusion of firm size, the results suggest that innovation is important for profitability. Cluster A indicates that all SMEs, regardless of size, apply some form of innovation although interestingly, firms that recorded a loss were distant to innovative practices (Cluster B). This suggests that innovation is an important consideration for rural SMEs regardless of size.

Figure 23 Multiple Correspondence Analysis Plots



Similarly when incorporating the question, how is the firms performance in relation to its competitors, the variables of worse, no difference and better display novel clusters. From the green circle in Figure 23 better performance was registered and clustered around innovative practices. There is also some overlap with no difference in performance compared to competitors (black circle). As in Figure 21, a worse performance is in reasonably close proximity to the innovative practices cluster.

These findings suggest that innovation is important for firm success and should be considered and applied. It also suggests that innovation has to be applied carefully and appropriately with negative effects being in such close proximity should they be applied incorrectly.

Overall, the findings seem to align with assumptions made by Gray *et al.* (2012) and Deakins and Freel (2009) in that innovation is highly diverse and can be undertaken

simultaneously. Similarly, it could be argued that the inherent difficulty in assessing which innovative approach delivers success (Macpherson and Holt, 2007), advocates usage of a range of innovation. Indeed research by Rosenbusch *et al.* (2011, 445) posits that “SME performance is influenced more strongly by the amount of innovation outcomes than by the amount of innovation inputs.”

5.9.3 Research Theme 3c – Business direction affects success

A factor analysis provides a useful means to identify if groupings or segments exist from answers from a set of questions. The approach enables statistical identification of thematic issues based on the strength of the grouping further providing a means to uncover structure within the data. Field (2013) and Kline (2014) view factor analysis as a form of data reduction, condensing and pulling together latent variables together into a smaller more derived element. Field (2013) and De Vaus (2013) further indicate that factor analysis aids in the removal of redundant or duplicated variables. Nonetheless as Datta *et al.* (2010) suggests, it is important to realise that these factorial measures, while statistically significant, are mainly valid within the context of which they are being studied. It is foreseeable that different results could be recorded when contextual differences exist. Thus, the use of factor analysis for the purposes of this study is to provide an exploratory measure to examine the existence of constructs that exist within the dataset.

As the study was exploratory in nature and seeking to identify which elements were catalysts to success in rural SMEs, an exploratory factor analysis was utilised. The goal of this approach is to “summarize complicated patterns of correlations between variables into a simpler explanatory framework,” thereby allowing examination of constructs and traits (Tinsley and Brown, 2000: p294). To ensure reliable conclusions could be drawn from factor analysis, a number of tests were undertaken. Field (2013) posits that a Cronbach Alpha test of internal reliability is required for each set of scale questions being examined. A Cronbach Alpha test examines the strength and reliability of the internal construct of the question set and identifies if the set is viable for further testing. For the purposes of this study, 20 items from the questionnaire were examined. A Cronbach Alpha scored of 0.725 indicates strong levels of reliability of the internal construct (n=20). A principal component factor analysis was undertaken on the 20 items while applying varimax rotations. As a

factor analysis examines associations and structures within the question set, a Bartlett's test of sphericity was further undertaken to confirm a strong relationship between tested variables. An observed result of less than 0.05 (<0.05) indicates a strong association. A Kaiser-Meyer-Olkin (KMO) result of >0.5 further validates the sampling adequacy of the data set.

Figure 24 Bartlett's Test and Scree Plot

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.529
Bartlett's Test of Sphericity	Approx. Chi-Square	5395.047
	df	210
	Sig.	.000

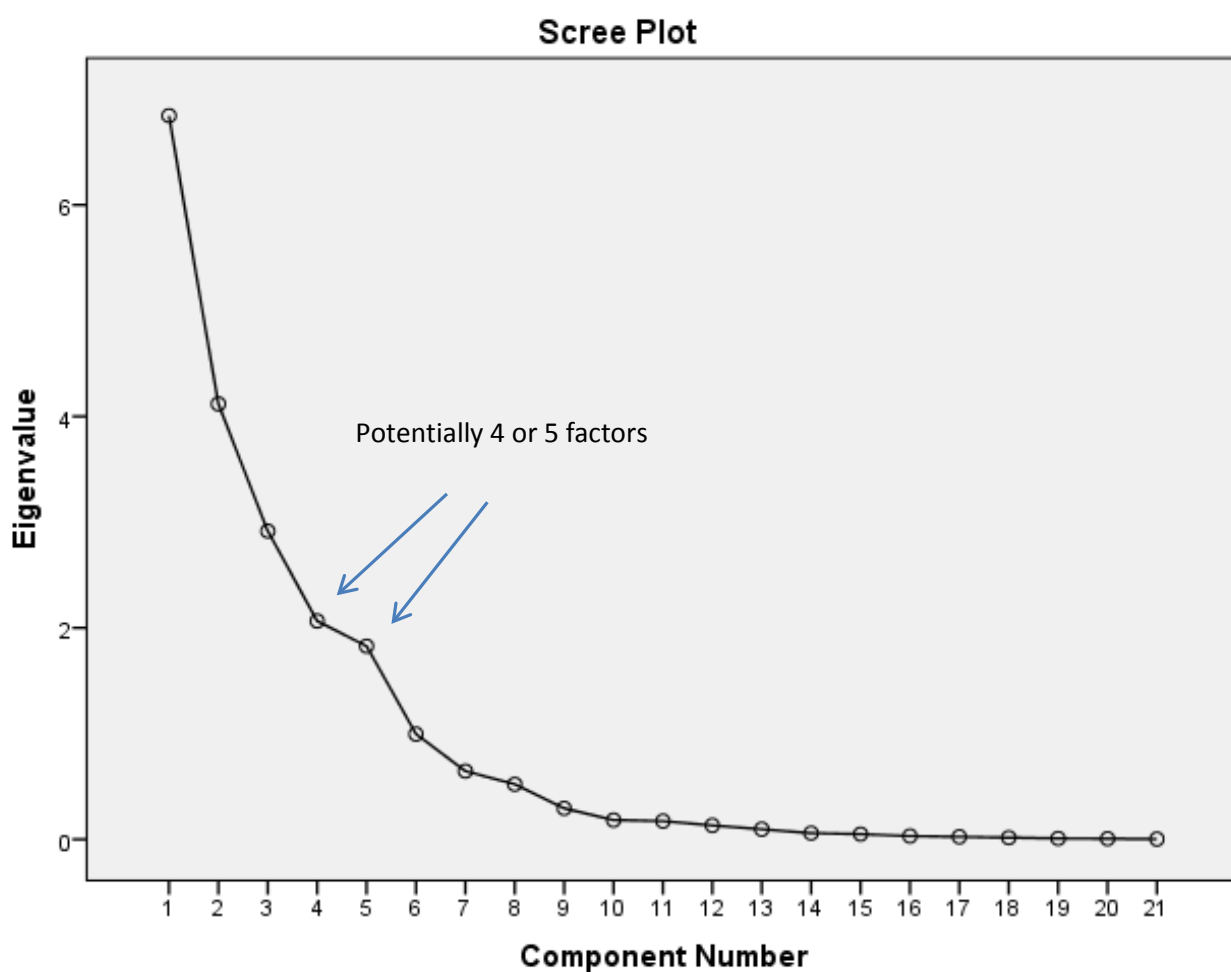


Table 33 Rotated Component Matrix

	Component			
	Business environment and customers	Locality	Growth	Financial Measures
Businesses like my own will similarly be able to succeed	.914			
My business will achieve my future expectations for it	.832			
My business is changing rapidly	.807			
The quality of products/services should be utmost	.792			
Financial cash-flows need to be managed to enable business success	.772			
A good product/service is vital for business success	.728			
Flexibility to adapt to external and internal forces is important	.525			
The local demographic affects business focus		.879		
Understanding the locality is key		.854		
Businesses which are able to engage and serve the local community well are more likely to survive		.654		
The number of competitors will grow in the next 5 years			.907	
Management structures in firms play a role towards success			.800	
Growth in employee numbers is important to business survival			.688	
Good initial capital investment is important				.806
Expanding the firm's market share is vital				.712
The entrepreneur drives the business forward				.578
Cronbach Alpha	.908	.853	.860	.739
% variance	32.6	19.6	13.9	9.8
Cumulative	32.6	52.2	66.1	75.9
Eigenvalues	6.84	4.12	2.92	2.07

In reviewing the scree plot, between 4 or 5 factors were existent within the data set (figure 24). Through further examination across the rotated component matrix, the results revealed 4 strong factors to exist. These were in the areas of understanding the customer, locality, growth and financial drivers of the firm. Fabrigar and Wegener (2011), indicate that the review of the measured scores for individual items and the overall interrelated strength of the component parts enable the identification of latent constructs. From here, the researcher undertakes the task of conceptual definition through applying theoretical assumptions and identification of constructs.

To further ensure strength of factors, a Cronbach alpha was undertaken on each of these factors to further test the strength and robustness of findings. Cronbach alpha results indicate strong reliability of the 4 factors, with the lowest result being 0.739.

Therefore factor analysis results indicate 4 major factors that contribute to 75% of the effect to SMEs within a rural location – the environment and customers, locality, growth and financial measures of the firm. This suggests that the 4 factors explain $\frac{3}{4}$ of the environment examined (table 33).

Factor 1 relates to the business environment and understanding customer demands with the cluster of elements such as quality of products/services, rapidly changing business demands and flexibility to adapt to internal and external factors. Factor 2 clusters around the locality of the business with items such as local demographic affecting business and how engaging the local community is vital for success.

Elements such as the growth of the business competitors in the next 5 years and the expansion of employee numbers suggest Factor 3 growth as a pertinent issue. Finally Factor 4 relates strongly to the financial measures of the firm with elements such as market share and capital investment clustering together.

With these factors in mind, the results suggest that in considering the future direction of the firm, entrepreneurs should pay particular attention to the demands of the environment and customers as well as embedding themselves within their locality. Similarly the desire for growth and financial concerns are also vital in the design of the direction of the business.

The usage of factor analysis has revealed some interesting notions on the measures of success and what is perceived by entrepreneurs as important. In terms of

generalisability, the results suggest that these factors equate to 75% of the prevalent issues in the environment that rural SMEs operate within.

To examine the effect of business direction further, a bivariate analysis was undertaken on questionnaire data. Utilising ordinal question B3, a bivariate analysis was undertaken to identify if priority placed one particular business direction affected the priority placed upon another. Bivariate correlations allow the examining of linkages between two variables and are utilised, with a margin of error, to determine the shared percentage of effect a variable has on another (Field, 2013) and vice versa. Tests of correlations are undertaken on continuous or discrete data. Thas (2010) posits that examination of correlations of continuous data should utilise Pearson's where Spearman's rho should be applied for discrete data. Bivariate correlations were undertaken on ordinal data to uncover if positive or negative correlations in how respondents viewed the different directions of the business as important exist. Given that ordinal or ranked data is discrete, Spearman's rank correlation was undertaken to identify linkages in the dataset. It is important to note that bi-variate correlation results indicate linkages in the dataset but does not pinpoint causality.

A bivariate correlation was undertaken on business direction to identify if priority placed on one direction affects the other in a positive or negative manner. This was undertaken to identify how SMEs prioritise their resources and the potential effect this has on other priorities.

Table 34 Bivariate Correlations on Business Direction

	Business survival	Reputation and status of the business	Employee security	Independent ownership of the business	Employment for family members	Maintain / enhance my lifestyle
Business survival	1.000					
Reputation and status of the business	-.654**	1.000				
Employee security	.645**	-.268**	1.000			
Independent ownership of the business	-.253**	.262**	-.214**	1.000		
Employment for family members	.058	-.628**	-.356**	-.289**	1.000	
Maintain / enhance my lifestyle	-.388**	.025	-.051	.258**	-.051	1.000

** . Correlation is significant at the 0.01 level (2-tailed). n=205

Results indicate a number of statistically significant correlations (see table 34). For example a negative correlation between reputation and business survival exists (-0.654). This indicates that where priority is placed upon the reputation of the business, business survival is given less importance and vice-versa. This indicates that entrepreneurs that focus too strongly on improving the status and image of the business can negatively affect the potential survival of the business. A similar negative correlation exist between reputation and employee security (-0.268) and employment for family members (-0.628), where focusing on image and status is at the detriment of jobs.

What is similarly interesting to note is the positive correlation between independent ownership and reputation of the business (0.262) and to maintain/enhance my lifestyle (0.258), where both have parallel importance. Contrast this to negative correlation of business survival and independent ownership (-0.253) and maintain/enhance my lifestyle (-0.388) and it posits that if businesses are too focused upon reputation, independent ownership and maintaining lifestyles, this could have negative effects on business survival.

The importance of future direction is also reflected in ANOVA results.

Table 35 ANOVA Results

		Sum of Squares	df	Mean Square	F	Sig.
My business will achieve my future expectations for it	Between Groups	129.138	2	64.569	64.558	.000
	Within Groups	201.034	201	1.000		
My business is changing rapidly	Between Groups	36.993	2	18.497	34.250	.000
	Within Groups	108.551	201	.540		
The entrepreneur drives the business forward	Between Groups	17.261	2	8.630	21.268	.000
	Within Groups	81.563	201	.406		
Good initial capital investment is important	Between Groups	69.892	2	34.946	176.972	.000
	Within Groups	39.691	201	.197		
A good product/service is vital for business success	Between Groups	15.406	2	7.703	14.949	.000
	Within Groups	103.575	201	.515		
Flexibility to adapt to internal forces is important	Between Groups	34.238	2	17.119	43.453	.000
	Within Groups	79.188	201	.394		
A clear strategy/strategic intent enables business success	Between Groups	6.380	2	3.190	11.328	.000
	Within Groups	56.601	201	.282		
Having a firm position in the marketplace is vital	Between Groups	4.094	2	2.047	12.475	.000
	Within Groups	32.980	201	.164		
Understanding the locality is key	Between Groups	57.783	2	28.892	37.768	.000
	Within Groups	153.761	201	.765		

Table 36 Tukey HSD Results

For the last financial year, has the business operated	N	My business will achieve my future expectations for it		My business is changing rapidly		A clear strategy/strategic intent enables business success		Having a firm position in the marketplace is vital	
		1	2	1	2	1	2	1	2
A profit	139	3.50		4.32		4.43		4.18	
Breakeven	42	3.51		4.37		4.50			4.48
A loss	23		1.00		3.00		5.00	4.00	

SMEs that made a loss also recorded different levels of agreement on business considerations in comparison to firms that made a profit and had broken-even. SMEs that made a loss clearly disagreed that they would achieve their future business expectations (see table 36). Interestingly they also disagreed that their business in changing rapidly. Bridge *et al.* (2003) and Bridge and O'Neill (2012) highlight that innovation and change are vital for businesses to succeed which perhaps indicate the plight that loss making SMEs are facing. SMEs that recorded a profit or had broken-even quite clearly understood the demands of their external environment with means scores between strong and strong agree.

In contrast to this though, loss making SMEs placed strong agreement (mean of 5.00) on how clear strategic direction enables success, where firms that recorded a profit and had broken-even had mean scores of 4.43 and 4.50. This could be perhaps a product of loss making firms understanding the need to have clear direction in order to remedy their loss making activities in the future.

Having a firm position in the marketplace seems to have mixed results with loss and profit making SMEs placing less importance on this in comparison to firms that broke even (table 36).

Table 37 Tukey HSD Results											
For the last financial year, has the business operated	N	Understanding the locality is key		A good product/service is vital for business success		Flexibility to adapt to external and internal forces is important		The entrepreneur drives the business forward		Good initial capital investment is important	
		1	2	1	2	1	2	1	2	1	2
A profit	139	3.83		4.32		4.47		4.33		3.68	
Breakeven	42		4.95		4.86		4.90		4.93		4.90
A loss	23		5.00		5.00		4.96		5.00		5.00

Table 37 highlights differences in mean scores that exist between SMEs that made a profit in its last financial year against firms that made a loss and those that had broken-even. Interestingly it was firms that recorded a profit that returned lower

scores in the level of agreement. While all mean scores were above neutral, SMEs that had broken-even or made a loss were clearly in stronger level of agreement with the statements on business approaches.

5.10 Research Theme 4 – Finances and financial planning are linked to SME success in a rural location

Utilising questionnaire data on financial performance and planning, this research theme seeks to test if these variables are linked to success. The theme reviews the dominant sources of finance (BIS, 2009; 2013; 2015a; 2015c) to examine if certain SMEs perform better as a product of financial stability or support (Cowling, 2010). Moreover the research theme will examine what form of financial planning and management is applied at rural firms.

Figure 25 below displays a range of key financial measures and the importance placed by rural entrepreneurs. Net profit (M= 4.03) and cash flow (M=3.98) returned the highest mean scores in terms of level of importance with sales growth rate and return on shareholders' equity being the lowest at 3.58. It is vital to note that while there are higher priorities being placed on the financial measures all measures returned a score that was 3.50 and above, indicating some level of agreement to their importance. Similarly, the range of financial measures utilised is not an exhaustive list but rather a selected core number of metrics based upon the literature.

Figure 25 Importance of financial measures

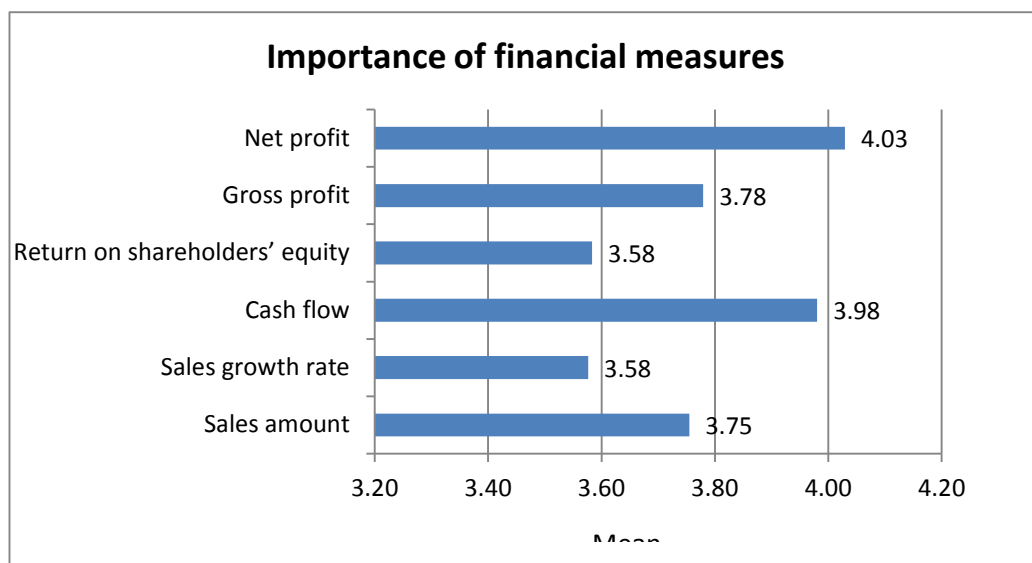
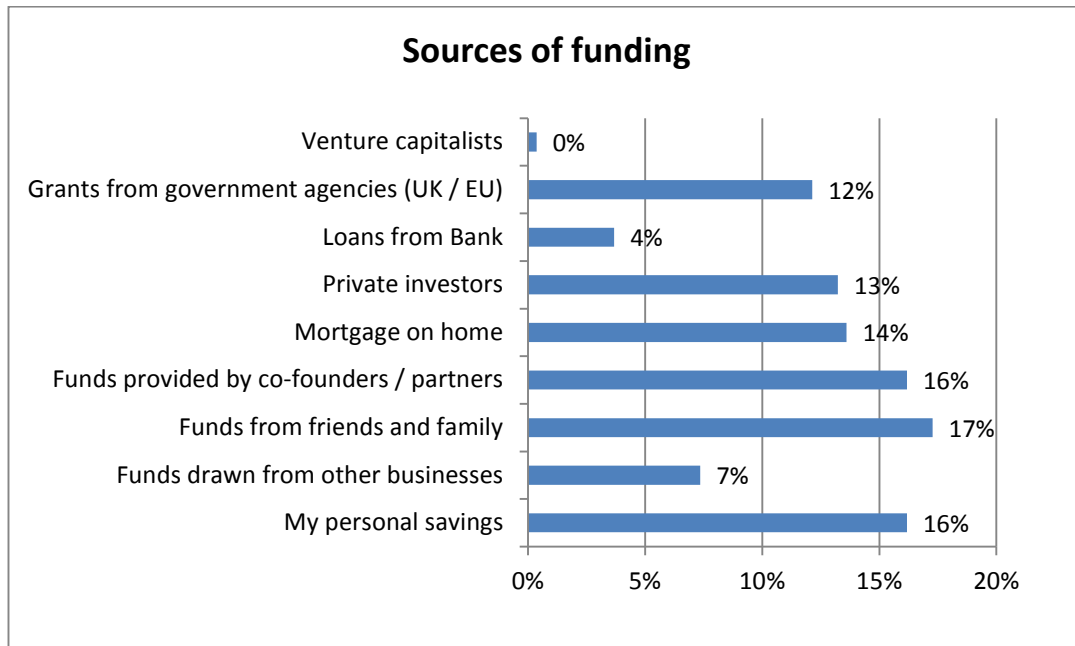
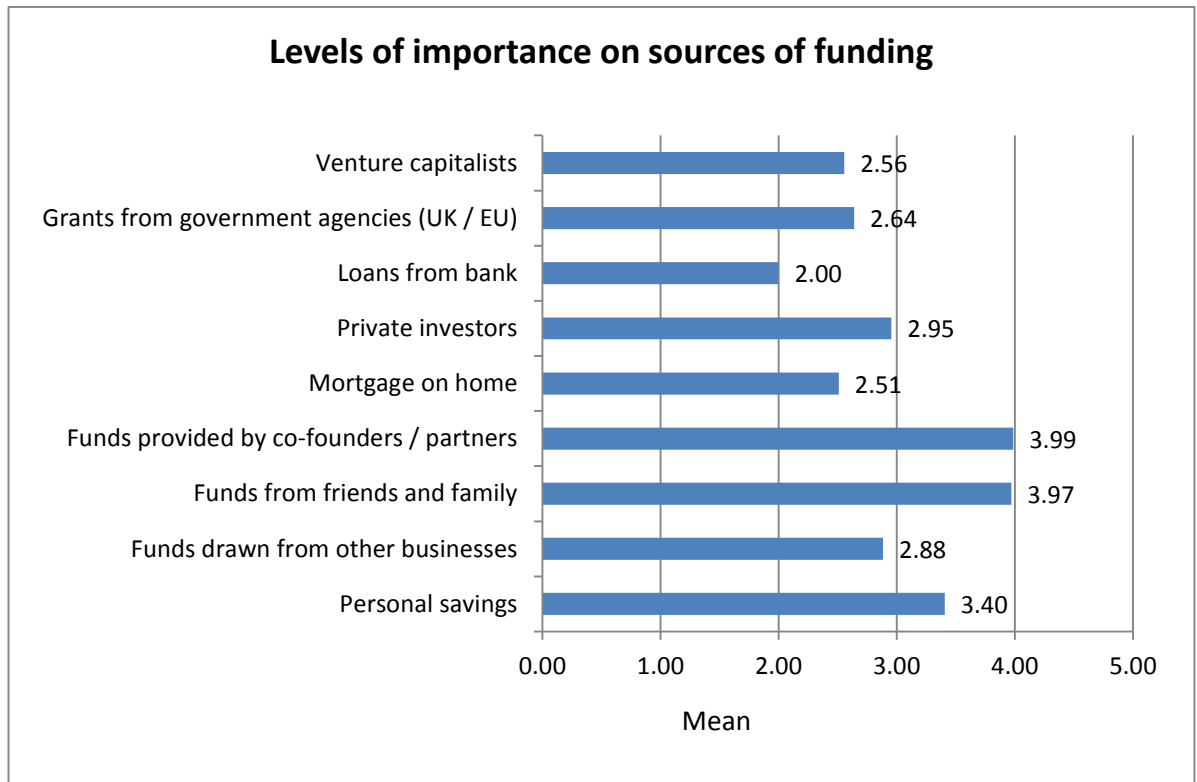


Figure 26 Sources of Funding



Respondents were also asked to indicate the volume of funding received from a range of sources. The data was then standardised across all useable responses to provide an overview of the sources of funding for the rural SMEs surveyed. The highest percentage of funding seems to emanate from friends and family, personal savings and funds from co-founders/partners. This does suggest that the majority of funding in rural SMEs is received from person or close sources. Loans from bank are lowest at 4%, which does question the government's economic policy and agenda for banks to lend to start-ups and businesses, in contrast to grants from government at 12%. This is an area that would benefit from future research as to the reasons behind a lack of access to bank loans and what policies should be in place to facilitate growth in the rural areas of the UK, considering findings from BIS (2015c) Similarly venture capitalists contribute 0% to the funds received by the respondents of the study, suggesting an equal need to review why a potential avenue of funding has not been exploited.

Figure 27 Levels of importance on sources of funding



In reviewing the importance placed on the different sources of funding, the results are consistent with the percentage of funding received above. Funding was much easier to attain from co-founders, friends and family and from personal savings. Of note is the level of difficulty in receiving funding from all other sources with a mean of less than 3 recorded. As above, this is an area that would benefit from future research to try and provide more avenues to receive funding.

These financial considerations were then examined against financial performance indicators through ANOVAs.

Table 38 ANOVA – Key Performance Elements						
		Sum of Squares	df	Mean Square	F	Sig.
Sales amount	Between Groups	5.042	2	2.521	4.064	.019
	Within Groups	124.703	201	.620		
Sales growth rate	Between Groups	87.771	2	43.886	176.266	.000
	Within Groups	49.795	200	.249		
Cash flow	Between Groups	49.997	2	24.999	52.382	.000
	Within Groups	95.924	201	.477		
Gross profit	Between Groups	4.025	2	2.013	3.288	.039
	Within Groups	123.048	201	.612		
Net profit	Between Groups	12.209	2	6.104	6.756	.001
	Within Groups	181.615	201	.904		

Table 38 above highlights all significant ANOVA returns ($p < 0.05$) related to key performance elements segmented by financial performance in the previous year. In order to identify specific differences in mean scores a Tukey post-hoc test was further undertaken.

Table 39 Tukey HSD Results

For the last financial year, has the business operated at:	N	Sales Amount	Gross Profit
		1	1
A profit	139	3.65	3.68
Breakeven	42	3.98	3.98
A loss	23	4.00	4.00

In reviewing significant ANOVA results, Tukey post-hoc tests were unable to reveal clear differences in how the business operated in the last financial year against the value placed upon financial measures of sales amount and gross profit.

Tukey post-hoc tests did reveal less importance being placed on net profit by firms that returned a profit in their last financial year in comparison to businesses that could only breakeven. The result, in its singularity, suggests that focusing on

ensuring a strong net profit for the business does not necessarily equate to profitability.

Table 40 Tukey HSD Results

For the last financial year, has the business operated	N	Net profit	
		1	2
A profit	139	3.88	4.5
Breakeven	42		
A loss	23	4.04	4.04

Other returned Tukey post-hoc tests further reveal differences in importance placed on financial measures to exist based on financial performance of the firm in the previous year.

Table 41 Tukey HSD Results

Current Size of Organisation	N	Sales growth rate		
		1	2	2
A profit	139	3.99	3.02	2.09
Breakeven	42			
A loss	23			

Perhaps taken in tandem with the results regarding net profit, it is firms that returned a profit last year which have placed the strongest importance on sales growth rate. Firms which returned a loss have placed less priority on this. Similarly cash flow issues seem to plague loss making firms more so than profitable ones. Loss making firms had a statistically different mean score of 5, placing strong importance on cash flow.

Table 42 Tukey HSD Results				
Current Size of Organisation	N	Cash Flow		
		1	2	2
A profit	139	3.65	4.50	5.00
Breakeven	42			
A loss	23			

The results indicate and signpost some interesting priorities placed on financial measures that differ based on the overall financial success of the firm in the previous year. This suggests that for an SME to do well financially within a rural location, a number of financial metrics needs to be actively and carefully considered.

Table 43 ANOVA – Key Performance Elements						
		Sum of Squares	df	Mean Square	F	Sig.
Business survival	Between Groups	56.503	2	28.251	34.695	.000
	Within Groups	163.669	201	.814		
Reputation of the business	Between Groups	14.175	2	7.087	16.818	.000
	Within Groups	84.703	201	.421		
Independent ownership of the business	Between Groups	27.819	2	13.910	39.302	.000
	Within Groups	71.137	201	.354		
Employment for family members	Between Groups	23.633	2	11.816	15.843	.000
	Within Groups	149.912	201	.746		
Maintain / enhance my lifestyle	Between Groups	66.742	2	33.371	88.924	.000
	Within Groups	75.430	201	.375		

Table 43 above highlights other significant ANOVA returns ($p < 0.05$) related to key performance elements segmented by financial performance in the previous year.

Table 44 Tukey HSD Results									
For the last financial year, has the business operated	N	Employment for family members		Business survival		Reputation of the business		Independent ownership of the business	
		1	2	1	2	1	2	1	2
A profit	139	3.59		3.87		4.65		4.19	
Breakeven	42		4.43		5.00	4.98		4.00	
A loss	23	4.00	4.00		5.00		4.00		3.00

Segmenting key performance elements against financial performances of the business reveals differences in importance placed (table 44). For SMEs that returned a breakeven, employment of family members returned higher mean scores that were statistically significant compared to SMEs that made a profit.

In terms of reputation and independent ownership of the business, SMEs that returned a profit or broke even identified these elements as more important than SMEs recording a loss. This is perhaps related to the prevention of business closure or failure and placing less importance on reputation and independent ownership, undertaking measures that ensure business survival.

Interestingly, SMEs that returned a profit placed less importance on this in comparison to those that made a loss and had broken-even. This was very clear with profitable SMEs returning a mean score of 3.87 compared to firms making a loss or having broken-even both returning 5.00.

Table 45 Tukey results on maintain/enhance my lifestyle

For the last financial year, has the business operated at:	N	1	2	3
Breakeven	42	3.05		
A profit	139		4.22	
A loss	23			5.00

Firms that recorded a loss placed the strongest importance on setting up a business to maintain and enhance the lifestyle of the entrepreneur. This potentially indicates that the operation of a business for lifestyle choices may not lead to financial success.

Interestingly, firms that returned a profit were not far behind in focus with a mean of 4.22.

Table 46 below highlights all significant ANOVA returns ($p < 0.05$) related to sources of information segmented by financial performance in the previous year. In order to identify specific differences in mean scores a Tukey post-hoc test was further undertaken.

Table 46 ANOVA - Sources of Information						
Customers and clients	Between Groups	10.487	2	5.244	4.876	.009
	Within Groups	216.160	201	1.075		
Other business owners	Between Groups	59.747	2	29.874	40.912	.000
	Within Groups	132.166	181	.730		
Consultants	Between Groups	105.207	2	52.604	29.579	.000
	Within Groups	353.907	199	1.778		
Magazines / newspapers	Between Groups	10.284	2	5.142	11.125	.000
	Within Groups	84.582	183	.462		
Trade publications	Between Groups	41.340	2	20.670	71.075	.000
	Within Groups	52.638	181	.291		
Patent filings	Between Groups	32.087	2	16.044	15.508	.000
	Within Groups	114.834	111	1.035		
Technical literature	Between Groups	9.481	2	4.741	6.509	.002
	Within Groups	133.277	183	.728		
National government sources	Between Groups	10.466	2	5.233	5.290	.006
	Within Groups	154.302	156	.989		
Universities	Between Groups	5.303	2	2.652	3.620	.029
	Within Groups	116.475	159	.733		
Local enterprise / development agency (e.g. Business Link / TC / LEC)	Between Groups	38.865	2	19.432	14.885	.000
	Within Groups	207.580	159	1.306		
Bankers / venture capitalists / business angels	Between Groups	99.693	2	49.846	60.939	.000
	Within Groups	148.870	182	.818		
Personal friends	Between Groups	16.478	2	8.239	24.660	.000
	Within Groups	60.473	181	.334		
From family members	Between Groups	59.875	2	29.938	32.113	.000
	Within Groups	167.808	180	.932		

Table 47 Tukey HSD Results

For the last financial year, has the business operated	N	Technical literature		Patent Filings		Consultants		Magazines / newspapers		Local enterprise / development agency (e.g. Business Link / TC / LEC)		Customers and clients	
		1	2	1	2	1	2	1	2	1	2	1	2
A profit	139	3.33		2.65		2.27		3.50		2.89		4.42	
Breakeven	42	3.25		3.17			3.90		4.08		4.00	4.33	
A loss	23		4.00		4.00		3.65		4.00		4.00		3.70

In the review of sources of information, SMEs that recorded a loss seem to place more importance or usefulness on technical literature and patent filings. Similarly firms that recorded a loss and had broken-even differed in their mean scores to SMEs that had made a financial profit. The results suggest that in terms of these sources of information SMEs that recorded a profit place less importance of their usefulness.

Table 48 Bankers / venture capitalists / business angels

Tukey HSD^{a,b}

For the last financial year, has the business operated at:	N	Subset for alpha = 0.05		
		1	2	3
A profit	138	2.58		
Breakeven	24		3.33	
A loss	23			4.78

Table 49 Personal Friends

Tukey HSD^{a,b}

For the last financial year, has the business operated at:	N	Subset for alpha = 0.05		
		1	2	3
A profit	120	4.03		
Breakeven	41		4.51	
A loss	23			4.83

Table 50 From family membersTukey HSD^{a,b}

For the last financial year, has the business operated at:	N	Subset for alpha = 0.05		
		1	2	3
A profit	139	3.18		
Breakeven	21		4.00	
A loss	23			4.83

Table 51 Tukey HSD Results

For the last financial year, has the business operated at:	N	Trade Publications			N	Other business owners		
		1	2	3		1	2	3
Breakeven	22	3.09			42	3.00		
A profit	139		3.96		119		4.37	
A loss	23			5.00	23			3.74

Similarly on sources such as bankers, personal friends, family members and trade publications, SMEs that recorded a loss recorded mean scores that were statistically different to firms that made a profit or had broken-even. Instead more ‘successful’ firms placed less importance on the usefulness of these sources (Table 48). As in Table 48, Tukey results for tables 49, 50 and 51 suggest little consistency in the findings for SMEs returning a profit or breaking even. Instead that loss making SMEs seemingly placed too much focus upon these sources of information.

This indicates, to a certain degree, that the usage of multiple sources of information need not ensure profitability. Instead, as indicated by Westhead *et al.* (2004) and Madhok (1997), streamlining and effective usage of information is key for business success, stability and focus. The usage of multiple sources of information could potential misled rather than provide concise direction.

There were two sources of information that were highlighted as important by profit making firms suggesting that priority should be placed on these. These sources were gained from other business owners and its customers and clients. As Akgün *et al.* (2011) discuss, there is a strong imperative to deliver products and services that meets the needs of customers. More specifically for rural SMEs, understanding the demands of customers and clients within their locality is vital for success (see Goffin and Mitchell, 2010; Love and Roper, 2015).

The results also suggest that reviewing or garnering information from other business owners would be beneficial for rural SMEs.

Table 52 ANOVA – Financial Focus

		Sum of Squares	df	Mean Square	F	Sig.
Personal savings	Between Groups	53.262	2	26.631	19.192	.000
	Within Groups	222.014	160	1.388		
Funds from friends and family	Between Groups	35.427	2	17.713	108.696	.000
	Within Groups	15.481	95	.163		
Funds provided by co-founders / partners	Between Groups	33.017	2	16.508	42.897	.000
	Within Groups	56.957	148	.385		
Mortgage on home	Between Groups	18.140	2	9.070	9.367	.000
	Within Groups	111.351	115	.968		
Private investors	Between Groups	80.182	2	40.091	78.094	.000
	Within Groups	43.636	85	.513		
Loans from bank	Between Groups	15.089	2	7.545	33.195	.000
	Within Groups	30.911	136	.227		
Venture capitalists	Between Groups	9.293	1	9.293	104.656	.000
	Within Groups	3.818	43	.089		

The table above highlights all significant ANOVA returns ($p < 0.05$) related to financial elements segmented by financial performance in the previous year. In order to identify specific differences in mean scores a Tukey post-hoc test was further undertaken

Table 53 Tukey HSD Results					
For the last financial year, has the business operated	N	Mortgage on home		Private investors	
		1	2	1	2
A profit	139	2.81	2.00	3.91	2.00
Breakeven	42				
A loss	23		2.00		2.00

In terms of the level of difficulty in obtaining specific funds, SMEs that recorded a profit had mean scores that were statistically different to SMEs that had broken-even or made a loss. Results indicate, unsurprisingly, that SMEs that had broken-even or recorded a loss found it more difficult to attain funding through a mortgage on home or through private investors. This difference is more evident in funding through private investors with mean differences of 2.00 and 3.91. Seemingly success measured through profitability provides ease in obtaining funds, thus potentially perpetuating further firm success.

Table 54 Tukey HSD Results				
For the last financial year, has the business operated	N	Funds from friends and family		
		1	2	3
A profit	139	3.52	4.00	5.00
Breakeven	42			
A loss	23			

Of note is also the importance placed upon funding from friends and family (table 54). These alter dependent on the financial performance of the firm, with importance increasing alongside diminishing financial success. This does suggest that

availability of funding (potentially short-term) from personal sources is vital when business performance is not at a fruitful level.

Overall the results suggest some consistencies in the focus on financial planning as vital for rural SME success. It does not indicate clearly which financial measures should be placed in higher priority over others nor has it identified that good results on a number of metrics would facilitate a successful firm. Indeed the lack of consistencies suggests that other driving forces are at work in enabling rural firms to truly flourish.

5.11 Research Theme 5 – SME failure in a rural location can be linked to a number of factors

While it was vital that the study examined the factors that affect SME success, it was just as important to identify any potential elements that could contribute to SMEs failure. The literature indicates a number of issues that can affect SME survival (Gaskill *et al.*, 1993; Carter and Van Auken, 2006; Beaver, 2003; Hustad and Olsen, 2014; Ma *et al.*, 2014). Utilising questionnaire data, the study will be able to evaluate and potentially identify areas that need careful management in order to avoid SME failure.

Table 55 ANOVA – Business Closure						
		Sum of Squares	df	Mean Square	F	Sig.
If the performance of the business was too low in relation to my expectations	Between Groups	12.485	2	6.242	3.546	.031
	Within Groups	353.848	201	1.760		
Due to Bankruptcy / liquidation / receivership	Between Groups	12.028	2	6.014	4.017	.019
	Within Groups	300.967	201	1.497		
To realise a capital gain	Between Groups	10.259	2	5.130	9.475	.000
	Within Groups	108.814	201	.541		
Lack of leadership	Between Groups	26.974	2	13.487	11.201	.000
	Within Groups	239.625	199	1.204		
Lack of growth	Between Groups	11.122	2	5.561	7.446	.001
	Within Groups	150.108	201	.747		
Being unable to embed themselves in the locality	Between Groups	52.131	2	26.066	18.001	.000
	Within Groups	291.045	201	1.448		
Being based in a rural location	Between Groups	41.521	2	20.760	10.428	.000
	Within Groups	400.165	201	1.991		

The table above highlights all significant ANOVA returns ($p \leq 0.05$) related to business closure segmented by SME size. In order to identify specific differences in mean scores a Tukey post-hoc test was further undertaken

Table 56 Tukey HSD Results									
Current Size of Organisation	N	Lack of leadership		Lack of growth		Being unable to embed themselves in the locality		To realise a capital gain	
		1	2	1	2	1	2	1	2
Small	56	3.65		3.71		3.32		3.96	
Medium	75	3.73		3.75		3.67		3.93	
Micro	73		4.44		4.22		4.53		3.48

In the examination of business failure, differences were once again highlighted between small and medium sized businesses against micro firms. In terms of lack of leadership, lack of growth and being unable to embed themselves in the locality, micro firms seem to agree more strongly that these elements could lead to business failure. Potentially micro firms feel the effect of changes in the market place more so as a product of size with these three factors contributing more so towards their failure. Small and medium firms were keener to realise a capital gain as opposed to micro firms, agreeing that they would close their businesses to do so.

Table 57 Tukey HSD Results							
Current Size of Organisation	N	If the performance of the business was too low in relation to my expectations		Due to Bankruptcy / liquidation / receivership		Being based in a rural location	
		1	2	1	2	1	2
Small	56	3.45		3.86	3.86	2.32	
Medium	75	3.27	3.27	3.80			2.95
Micro	73		2.85		4.33		3.47

The results reveal differences emanating from micro firms. When asked if the entrepreneur would close the firm if the performance was lower than expectations, micro firms had mean scores that were between neutral and disagree, where small sized firms were more in agreement (see table 57 above). Likewise micro firms were more strongly in agreement with closure due to bankruptcy in comparison to

medium sized firms. These results suggest that rural micro firms are more likely to continue and endeavour in business operations in comparison to small rural firms. It also suggests that the larger the firm there is seemingly less of an affect that potential bankruptcy would have in comparison to micro firms.

This could be linked to micro firms accepting that performance and slight changes in the marketplace has a greater affect upon them. Similarly, micro firms with a mean score of 4.33 were the strongest in agreement that bankruptcy or liquidation was more likely reasons for closure, further indicating the effect their external environment and decision-making have on business success.

When asked if being based in a rural location affected business closure, small firms highlighted that this was less likely in comparison to micro and medium firms. This does suggest consistency in findings as small firms seem more likely to succeed in a rural location. Small firms returned mean scores ($M=2.32$) that were statistically different to micro ($M=3.47$) and medium (2.95) firms in identifying if being based in a rural location was more likely to lead to business closure. This could indicate that small firms that had between 10 and 50 employees are able to be successful within a rural location. Bonfatti and Monari (2004) suggest that micro firms often lack the critical mass to truly compete but may retain some competitive advantage in being able to cater to its locality. Medium firms while large and able to weather minor setbacks, may not be able to adapt and be flexible to the demands of rural communities. Thus, it could be suggested that a small firm size is most advantageous and more likely to survival in a rural location. It is important to note that the findings here are purely suggestive and would require further future research to provide a more concrete examination

Table 58 ANOVA – Business Closure						
		Sum of Squares	df	Mean Square	F	Sig.
If the performance of the business was too low in relation to my expectations	Between Groups	18.077	2	9.038	5.217	.006
	Within Groups	348.257	201	1.733		
Due to Bankruptcy / liquidation / receivership	Between Groups	32.548	2	16.274	11.664	.000
	Within Groups	280.447	201	1.395		
To realise a capital gain	Between Groups	4.094	2	2.047	3.578	.030
	Within Groups	114.980	201	.572		
If a better opportunity presented itself	Between Groups	6.505	2	3.252	3.668	.027
	Within Groups	174.675	197	.887		
Lack of leadership	Between Groups	12.634	2	6.317	4.950	.008
	Within Groups	253.965	199	1.276		
Insufficient financial planning	Between Groups	14.291	2	7.146	42.689	.000
	Within Groups	33.645	201	.167		
External forces	Between Groups	9.919	2	4.960	24.131	.000
	Within Groups	41.311	201	.206		
Lack of growth	Between Groups	13.693	2	6.846	9.327	.000
	Within Groups	147.538	201	.734		
Being unable to embed themselves in the locality	Between Groups	51.970	2	25.985	17.936	.000
	Within Groups	291.207	201	1.449		
Being based in a rural location	Between Groups	102.596	2	51.298	30.408	.000
	Within Groups	339.090	201	1.687		

Table 58 above highlights all significant ANOVA returns ($p < 0.05$) related to business closure segmented by financial performance in the previous year. In order to identify specific differences in mean scores a Tukey post-hoc test was further undertaken.

Table 59 Tukey HSD Results									
For the last financial year, has the business operated	N	If the performance of the business was too low in relation to my expectations		Due to Bankruptcy / liquidation / receivership		Being based in a rural location		External forces	
		1	2	1	2	1	2	1	2
A profit	139	3.07		3.99		2.63		4.29	
Breakeven	42	3.02		3.52		2.98		4.45	
A loss	23		4.00		5.00		4.91		5.00

In examining reasons for business failure and closure, there is clear consistency in statistically significant differences in the means. ANOVA and subsequent Tukey post-hoc results highlighted a difference between loss making SMEs against those that returned a profit and had broken-even. The results suggest that a range of environment factors, performance and bankruptcy were key elements linked to business closure. Interestingly firms that recorded a loss found being based in a rural location as part of business failure (4.91), although this is likewise rebutted by levels of disagreement by profitable business (2.63) and those breaking-even (2.98).

Table 60 Tukey HSD Results							
For the last financial year, has the business operated	N	Lack of Growth		Lack of leadership		Being unable to embed themselves in the locality	
		1	2	1	2	1	2
A profit	139	3.74		3.80		3.55	
Breakeven	42		4.38		4.43		4.38
A loss	23	4.04	4.04	4.00	4.00		4.96

On other elements that have an effect on business failure, differences lie between profitable firms and those breaking-even. The results indicate that firms breaking-even agreed that a lack of growth and a lack of leadership would lead to failure, suggesting that more focus should be placed on these elements. Likewise SMEs that

were breaking-even and making a loss found themselves being unable to embed themselves well into the locality.

Table 61 Tukey HSD Results			
For the last financial year, has the business operated	N	To realise a capital gain	
		1	2
A profit	139	3.82	3.82
Breakeven	42	3.52	
A loss	23		4.00

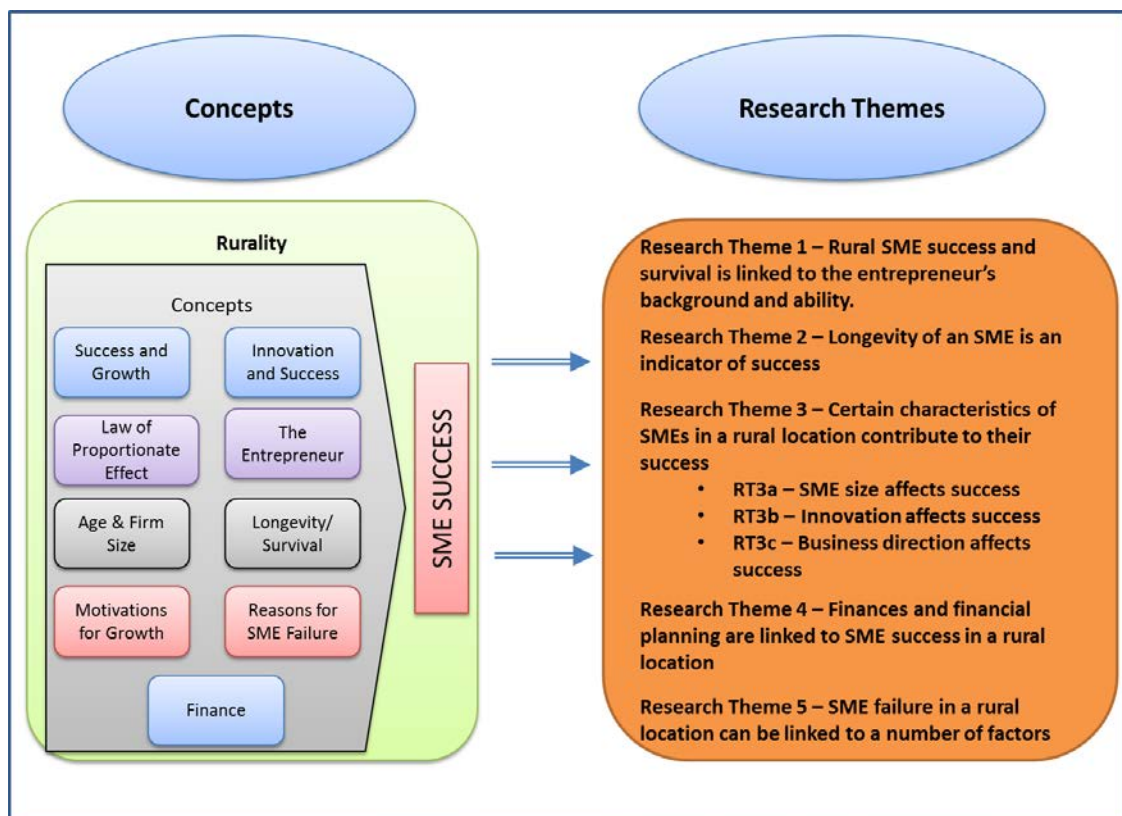
Another issue for consideration by entrepreneurs is in relation to realising a capital gain (see table 61). For firms making a loss, this was highlighted a strong issue for business closure. Interestingly, no discernible differences were identified for profit returning SMEs.

6. Discussion.

This chapter discusses the key findings of the study and examines the validity of the different research themes. The chapter is structured against each different research themes and discusses the findings within the context of current discourse, signposting its contribution to current knowledge.

It further provides an overview of the different factors affecting SMEs in a rural location that contributes to success. The chapter further discusses the limitations of the study, indicating areas which would benefit from future research.

Figure 28 Concepts mapped to research themes of the study



Ultimately the chapter discusses the key results, conceptualising research findings within the current body of knowledge and examining how these contribute to current knowledge, practice and policy.

6.1 The background of the entrepreneur.

Love and Roper (2015) and Koryak *et al.* (2015) state that the operation, direction and structure of SMEs are strongly determined by their owners and their entrepreneurial spirit and endeavour. Bridge *et al.* (2003) suggest that SMEs are reflection of the personality, thought processes and acumen of the entrepreneur, often mirroring their approaches to management and their ability to exploit gaps or take risks within the marketplace. Thus it is foreseeable that the background of the entrepreneur is linked to management of a firm and with it the potential ability for success.

Indeed Koryak *et al.* (2015) discuss how innovative processes and approaches are often linked to entrepreneur propensity and desire. Similarly Gray *et al.* (2012) examine the vision and entrepreneurial traits of an individual are often incorporated into business management and operations. The results of the study do suggest similar associations of specific elements within an entrepreneur's background to that of SME operation and with it propensity for success.

Notable differences in the way SMEs are managed exist if the entrepreneur's parents had previously owned a business. The results indicate very different approaches to financial management and approaches to management of the business. For example, firms where the entrepreneur had family members who had owned a business utilised a wider range of sources of funding and placed emphasis on the importance of friends and family as well as co-founders and partners. This suggests that a close knit network of acquaintances were particularly important to the operations and success of the firm. Similarly, in the questionnaire section on business considerations there was an inherent desire to drive the business forward, reacting more strongly to a range of statements on how to approach business management. It seems that entrepreneurs that had a strong business background grounded within the family were keener to enhance the overall operation of the firm. From elements such as weathering the external environment, different sources of information and ultimately to managing and working within their locality, the results suggest that entrepreneurs with a family background in business operations were not only more enthused but keen to realise business success (Blanchard, 2015). As suggested by Storey (1994) there is vested interest in the overall success of a personal business endeavour. The

results here indicate that familial background can further emphasise this and is potentially a catalyst or driver of the entrepreneur.

Other statistically significant findings displayed stronger propensity and desire to ensure growth, longevity and establishment of the business. This is particularly interesting as it suggests that entrepreneur behaviour and personality traits are not only derived from their upbringing but that acumen and knowledge is aptly transferred.

Results when considering business closure were similarly reflective of the desires of entrepreneurs that had a family background in business. Cross and Travaglione (2003) suggest that there may be an emotive element that exists in the desire of the entrepreneur to build upon the successes or failures of their parents and often heeding their advice. This is translated to their decision making for the business and its overall direction. The findings of this study indicate a strong association with this in rural SMEs. Similarly Powell and Eddleston (2012) indicate that there is additional familial support and a source of advice in decision-making which suggests that entrepreneurs benefit from a further network of information and 'know-how' in comparison to those whose parents did not previously own a business.

In the examination of whether the entrepreneur was from the local area of the firm, there also exist differences in business management approaches. In terms of financial focus, entrepreneurs from the local area found their own savings and funding drawn from their other businesses to be particularly important. Entrepreneurs entering into a rural business and not from the local area seem to find the majority of their financial resources from private investors.

In terms of business considerations such as sources of information and business direction, similar statistically significant differences emerge. Of note are the reliance placed by entrepreneurs not from the local area on consultants and national government databases as a key source of information. Mirroring the results of financial focus, the findings suggest that entrepreneurs from the local area have stronger links to sources of information and networks where these aid in the development of the rural firm. In terms of taking the business forward, the results do suggest that entrepreneurs from the local area of the firm benefit from strong familiarity and understanding of the demands of their community. This is

particularly interesting within the rural context as Smallbone *et al.* (1993) and Akgün *et al.* (2011) highlight that it is often entrepreneurs who are successful elsewhere that return to rural locations and indeed rural locations which they are familiar with.

Within this study's review of rural SMEs the findings indicate that entrepreneurs that are not from the local area of the firm require more advice and information drawn from other sources such as consultants and government sources. The mean scores from the questionnaire with regards to section on business considerations further indicates similar strengths in entrepreneurs who are from the local area of the firm. This suggests that being from the local area of the firm has some beneficial effect on ensuring business success. There is more confidence in responses, understanding the demands of the external marketplace, profitability and the position the entrepreneur plays in enabling success. Likewise finance, innovation, product and service quality and overall business survival are prioritised by entrepreneurs who belong to the local area in comparison to entrepreneurs that do not.

Kirzner (2009) indicate that local entrepreneurs need to have a strong understanding and foundation of their locality and therefore will capitalise and utilise their knowledge for the benefit of the firm. Their vision of the firm and the marketplace it operates in enables them to be more certain of decisions as well as how best to drive their business forward. Nonetheless, Shepherd *et al.* (2009) and Simmons *et al.* (2014) reminds us that entrepreneurs who are often so strongly embedded in their locality and firm can often seek not to fail owing to the social stigmas that can exist within operating in a small community. Similarly, strong knowledge of the locality and its idiosyncrasies not need enable success but could create stubbornness in decision making, where entrepreneurs 'think they know better' rather than heed warning signs.

The results within the area of business closure are indicative of this, with entrepreneurs not from the local area of the firm placing strong importance on how external forces can affect firm success. Entrepreneurs from the local area felt strongly that business performance expectations, capital gains and growth were more important measures in assessing whether to keep the business open. Interestingly, entrepreneurs from the local area did also consider the effect of being based in a rural location has on business closure. They indicated with a mean score between

neutral and agree that there are inherent difficulties with rurality. This suggests their knowledge of their locality provides them with appropriate understanding of the marketplace within which they are operating. Entrepreneurs who were not from the local area thought that a rural location was potentially beneficial for a business venture.

The findings suggest that academic background has a somewhat odd association with the potential for firm success. When viewed against financial success and profitability, the results were unclear as to the importance academic qualifications may have had with this. Firms that returned a loss had little linkage to any academic qualifications. Interestingly when focusing on firms breaking even, postgraduate studies were the most common educational qualification of rural entrepreneurs in the cluster. The results suggest that there is little clarity in determining if academic qualifications of the entrepreneur enable financial success, although a lack of qualifications is somewhat linked to the firm returning financial losses.

When reviewing the background of the entrepreneur, the results as a whole suggest that there exist differences in approaches, management considerations and priorities as a product of their previous knowledge and understanding. It seems that entrepreneurs who have had family members being previous business owners and being from the local area of the firm to have an advantage when compared to entrepreneurs who did not have either. This advantage is highly useful in ensuring firm success as inevitably better sources of information, clearer decision-making and overall business direction will facilitate the desires of the entrepreneurs and their business. Nonetheless the results also indicate areas where caution should be placed. Most notably is that entrepreneurs who are not from the local area of the firm exhibit more neutral perceptions of their business within a rural location. This perhaps indicates a more cautious demeanour which is not necessarily a disadvantage but rather a more planned and considered approach to entering a new market.

Within the larger context of the study, this does suggest that propensity for success and clarity in decision making leans towards entrepreneurs with a specific background. Nonetheless it is still vital for these entrepreneurs to not be overly driven by the desire to attain success where their stubbornness impedes their ability to heed changes in the external environment. Similarly, the lack of association or

relationship with academic credentials, suggest that the performance of rural SMEs has little to do with the academic calibre of their owners.

6.2 Longevity as important for success.

Barringer and Jones (2004) and Camacho-Miñano *et al.* (2015) discuss the importance longevity is as a measure of success with firms having existed over a long period of time to exhibit strong flexibility and adapting to changes in the external environment and marketplace during the lifetime of the business. Longevity is a vital consideration in the entrepreneur's vision of the firm as appropriate consideration in structure, approach and even innovation is required to facilitate such an aim.

In examining business focus of 'sales and profitability', the results posit that the desire for 'longevity' works hand in hand with 'financial performance and business growth'. The associations between the three suggest that should entrepreneurs be keen to facilitate business longevity, focus should be equally placed upon the firm's finances and growth.

Furthermore in terms of business survival, the results indicate a strong link to both longevity and financial performance. This suggests that it is important to undertake appropriate financial considerations and focus to ensure long term survival of the firm.

Most notably is the part the entrepreneur plays in enabling business longevity. The findings suggest that in the longer term the entrepreneur plays a very small role in the overall desire or ability for long-term survival of the firm. Indeed the results indicate that for longevity, the ability of the entrepreneur is less important and should be less prevalent than other business considerations.

In terms of sources of information and local contacts, the entrepreneur's role is vital to enabling business success. Thus, on a more localised level the sources and value of information is of importance to rural SMEs.

Overall the findings do suggest that to prioritise longevity requires consideration and management of a large number of performance indicators to include finance, sales

and funding. Cowling (2010) and Gray *et al.* (2013) similarly discuss how vital funds are for the ability for SMEs to maintain their market position and continue to operate. This is reflected in respondents' scores to business considerations where the desire for business longevity is consistent across different measures. In essence, the idea of longevity requires quite an extensive range of considerations to enable the firm to survive. Respondents who were keen to ensure long-term existence of their firm placed particular emphasis on ensuring a clear direction for the future, sustainable business operations and ultimately a strong pattern of existence linked with their locality. Given the findings it does suggest that for longevity to be achievable a mix of priorities need to be placed across the spectrum of business management. Within a rural context, this includes not only understanding the locality and the local marketplace but being able to remove entrepreneurial limitations and focus upon more concrete and tangible elements such as finance and growth.

The desire to expand and to grow seems to be linked to the desire for longevity. The ability to manage financial considerations well is similarly linked to longevity in many of the variables being examined.

A key finding from the study is with the statement 'businesses which are able to engage and serve the local community well are more likely to survive.' Stronger means scores were returned by entrepreneurs keen for business longevity. This suggests that working strongly and being better assimilated with the local community facilitates and is a catalyst to longevity.

These in totality suggest that for rural SMEs, a number of business considerations are made with a view towards longevity and long-term business survival. The findings of the study suggest linkages and priorities but are unclear if longevity enables business success. It does indicate some key processes and approaches that are vital should a rural firm seek longevity further signposting the need to build other priorities such as finance and growth. The results of this study indicate that the desire for longevity may need to be considered in tandem with the desire of other business approaches such as financial performance and business growth.

6.3 Size and success.

Lumpkin and Dess (2013) discuss how the ability to have a strategy that is flexible and able to adapt to the external environment and locality to be key towards success for small firms. The study has identified some important elements within an SME and more specifically one that operates within a rural location. Lee (2013) and Williams (2014) discuss the importance growth and size can have on small business development and success.

The results of the study indicate a strong link between SME size and the effect it has on firm success. Blackburn (2012) indicates that SMEs are often characterised as one large homogenous group, oversimplifying the complex structures and approaches undertaken by micro, small and medium sized firms. Haleblian *et al.* (2012) argues that the dynamism and uniqueness of each firm and its inherent structures as a product of their size, creates both conflict as well as benefits.

The findings of the study do mirror this understanding, indicating that specific SME size does help or even facilitate success. There is an inherent need to be big enough to withstand external pressures while also being small enough to be able to change and adapt quickly.

The result of this research suggests that the optimum size of a rural SME is small. As seen in section 5.9.1, micro SMEs seem to lack the overall structure, capacity and critical mass to survive and be successful. The results indicate a lack of coherence where firms of this size sought information from an extensive range of sources and placed overwhelming priorities on a range of financial sources and measures. While a micro firm may be able to adapt more quickly with its small employee numbers, its critical mass seems insufficient to deal with a range of elements affecting it as well as having a clear cognate direction or strategy to address it.

Lee *et al.* (2012) discuss that while micro firms exhibit strong personalisation of service/product provision, it can often be difficult for the business to escape from its limited base. Specifically where growth is sought, micro firms are limited by the resources available and the ability to expand their market. Inevitably growth could be a key driver of all firms but in particular the research suggests that micro firms are at a disadvantage.

The findings suggest different approaches, business direction and indeed reasons for failure exist as a product of SME size within the context of rural firms. Statistical testing reveals that micro firms are often too small and unable to weather the difficulties of the external environment, even though more flexibility and adaptability is prevalent. Larger medium firms retained sufficient critical mass to nullify the negative effects of external forces. Unfortunately the effect of their rigid structure and with it inability to alter, change and react to the demands of the rural community is detrimental to their business. While their sources of information, income and finance seems to be clearly stated and structured, their rigidity to change and inability to adapt affects their potential for success. The findings indicate that medium firms have strong results in a number of areas yet these do not facilitate or enable success. That is not to say there are no successful medium firms, but within a rural location, a medium sized SME has a disadvantage when compared to other sizes.

It is important to note that these are limitations and benefits that exist owing to size. This does not necessarily mean that micro and medium sized firms are unable to succeed, merely that their size is less than optimal. Indeed the results suggest that when viewed against financial and firm performance the sizes of micro and medium are more opaque in exhibiting business success. Similarly the different sources of information create quite a dichotomous contrast where micro firms focused on too many and medium firms placed strong importance on a targeted few.

This suggests that micro firms in comparison to medium firms are at alternative ends of the spectrum, with little clarity on which benefits outweigh the negatives. Indeed within a rural context, the prevalent findings of the study indicate that the optimum size for firm would be small. The balance between the different priorities, structures and critical mass of micro and medium sized firms exist within small business. The ability to be flexible while simultaneously holding onto the appropriate benefits that a suitable mass provides, enables small firms to benefit on both sides of the performance spectrum.

The potential to focus on key sources of information while still maintaining a good and reasonable range of contacts facilitates success in small rural firms. Examining the results also indicates that small firms have a more balanced approach to different

business considerations, being flexible to adapt to market forces but similarly consider cash flows amidst diversity in product range and services.

The results indicate that within rural locations the optimum size for a firm is small with employee numbers between 10 and 49. The results posit that micro firms are too small and medium firms are too large where a neutral or balance point between the two would be small-sized SMEs. Small firms retain a lot of the characteristics of its micro beginnings with clear embedding within the locality and personalisation of service. Similarly its direction, desire and objectives are driven by entrepreneurial control and vision. Likewise, it mirrors its larger medium counterparts by being able to absorb changes reasonably well.

Small firms also retain an appropriate balance between different sources of information, income and financial support, providing it with sufficient critical mass but similarly enough flexibility to adapt. Given the locality and geography of being within a rural location, small firms are able to command suitable market position but are not subject to the same restrictions of micro businesses. They, furthermore, are able to adapt to fluctuations in customer demands and the external environment being the apt size to undertake adequate change management.

Laukkanen *et al.* (2013) and Dobbs and Hamilton (2007) discuss how the inherent structures of a business, its direction and purpose can affect overall success and its position in the marketplace. This study in reviewing SMEs within a rural location posits that potentially growth and business survival is linked to SME size. It also suggests that small firms rather than micro and medium are best placed to exploit the benefits of their locality while retaining a structure that maximises impact.

6.4 Innovation and rural firms.

Freeman and Soete (1997) discuss that a firm that fails to innovate should also fail to succeed and survive. Luo (2000) discusses the importance that any form of innovation can have in ensuring continued business growth, longevity and financial success when at the same time potentially improving process and the efficiency of the firm. In contrast to this, there have also been firms which have been highly successful in holding onto tradition and its heritage as a critical success factor and

competitive advantage. While innovation is good, innovation that is uncontrolled, unmanaged and without clear direction can often lead to firm demise. Thus while innovation is important, its approach and overall feasibility needs to be considered carefully within the context of the business, its external environment and the potential benefits it may bring.

Within the study of rural SMEs, the results overwhelmingly suggest the importance that innovation has on firm success. All firms surveyed indicated their desire and range of innovative approaches undertaken, with the exception of approaches utilised to engaged external agencies. This suggests that even within a rural context where there is limited room for innovative processes, the keenness to innovate seems extensive (see chapter 2.6).

Clusters within the dataset further indicate that where innovation is important, firms have been keen to innovate extensively and through quite a wide range of options. Interestingly when considering financial success, the results indicate that firms returning a profit or breaking even undertook some form of innovation. More specifically, identifying a new market and developing new organisational cultures to enhance innovation were more closely clustered to rural SMEs that recorded a profit.

Nonetheless as noted above (see section 5.9.2), a number of innovative approaches were not too distant from firms that recorded a loss, suggesting that overly extensive and unplanned innovation can lead to failure. To echo Macpherson and Holt (2007) a range of approaches to innovation would be best for firms in their desire for success. The results suggest that this should be undertaken with care.

Seemingly, current discourse provides a relatively clearer answer on the choice of whether to innovate or otherwise. It predominantly indicates a need to remain flexible as well as aware of changes in the marketplace, where innovation is a valuable tool to ensure this end-goal. Notwithstanding, the ability or want to innovate is strongly linked to the entrepreneur (Gray *et al.*, 2012). Likewise the inability to be dynamic is wholly dependent on the entrepreneur - an issue that is less prevalent in larger firms as organisational direction is often decided via shareholders and board meetings. Highly innovative firms that alter the business model, develop new products, apply new supply chain and logistical approaches or apply new

technologies to cater to changing customer demands are only so as a product of the entrepreneur's desire and ability to do so.

Barr *et al.* (1992) and Barr (1998) warn that innovation is often driven by the entrepreneurs desire to do so and be able to spot market opportunities. In this same vein, there is every likelihood that an entrepreneur's ability or inability to uncover opportunities or even set boundaries and limits to firm development would restrict business growth and success.

As such while the literature around the subject of innovation is complex and fragmented, the role of the entrepreneur as a key determinant for innovation has broad support in the literature (see Deakins and Freel, 2009). In reviewing the effects that 'the family' has on the entrepreneur, Powell and Eddleston (2012: p265) is keen to indicate how the family could contribute to "heightened creativity that helps entrepreneurs' ability to engage...to develop an optimistic bias". Bridge *et al.* (2003) and Bridge and O'Neill (2012) place importance on the desire of the entrepreneur and their 'risk-taking propensity' and posit that medium risk entrepreneurs and those that take calculated risks tend to perform better and have a higher probability of success. Earlier work by Bedeian (1990) argues that organisations need not only react to their external environment but can also create or enact them.

Ultimately the desire to innovate is an important one. As displayed by figure 21 and 23, innovation does provide a suitable and potentially successful avenue in the operation of the firm. The results here indicate that overall firm performance was better and more closely clustered to approaches to innovation. While it is also important to note the potential for innovation to make things worse, the overall picture is that innovation is an important tool and process for rural SMEs to undertake to deliver business success. Given Chilelushi and Costello (2009) suggest that constraints as a product of geographical restrictions exist for rural firms, innovation may be an appropriate way forward in nullifying these. Nonetheless rurality in itself is an opportunity. Thus, the findings as a whole suggest that innovation in rural SMEs is important and there should be an appropriate drive towards it. It does also indicate the positive effects that appropriate innovation can have on firm financial success and the potential for such approaches to have a positive impact on the business. While the findings of the study cannot discern the

optimum mix of innovative approaches that enable success, it does indicate that innovation is key to survival and success.

6.5 Locality and growth as important for rural SME success.

Roberts *et al.* (2006) discuss how important it is for rural firms to embed themselves within their locality and market to ensure business success. They indicate that firms that are able to provide products and services that match not only the local level of demand but the culture of the area facilitate long-term survival and overall business success. As such firms do not only have an obligation to deliver quality and range in products and services that match the demand of their customers but essentially need to fit within the values that exist within a small rural community.

Similarly Koryak *et al.* (2015) and Lumpkin and Dess (2013) highlight growth as an important factor that enables a firm to succeed and survive. Pasanen (2006) provide on measure of growth as the increases in employee numbers while Delmar *et al.* (2013) highlight the expansion of the targeted market. While there may be different interpretations of growth (see Beaver, 2003; Walker and Brown, 2004), current discourse (Lee, 2014; Dobbs and Hamilton, 2007) seem to be clear on the importance growth has on the firm.

These two factors are seemingly interlinked as only by understanding the locality can a firm grow appropriately. Cosh and Hughes (2000) and Weber *et al.*'s (2015) research suggest that uncontrolled, unplanned and undirected growth can lead to business failure and extensive products and services that serve little to the firms core operations. Thus for firm success there is a need to not only understand the local marketplace, customer demands and values but that these should be considered alongside the decisions on growth and how to grow.

Factor analysis results indicate a similar level of importance to be placed on these variables. The analysis reveals 4 substantive factors to affect rural firms (see table 33). These were in business environment and customers, locality, growth and the overall future direction of the firm.

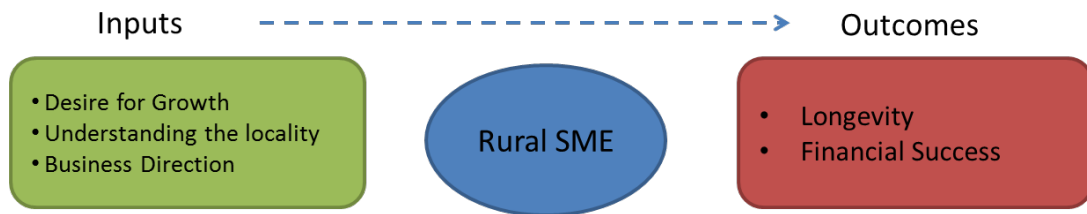
The results indicate that approximately 34% of variances in the external environment for rural SMEs are caused by locality and growth. In the examination of adaptability, flexibility and products/service range, the results indicate that this particular factor was prominent at explaining 33% of the variances. Similarly, the importance of locality, local demographic and business survival affects 20% of variances. The statistical findings here indicate that over 50% of the issues highlighted by rural SMEs are related to the business environment and locality. Building upon work by Westhead *et al.* (2004) and Roberts *et al.* (2006), the results ratify the importance that these considerations have even in the context of rural SMEs in the UK. Indeed the findings and the Cronbach Alpha scores of reliability suggest the strength of these factors in affecting decision making and overall success of a rural SME.

Growth is also revealed to be a key factor with a percentage variance of 14%. The score signals the contextual importance that growth has in relation to locality and the business environment. The 3 major factors contribute to 66% of factors that need consideration by rural SMEs. This suggests that for firms to be successful in a rural location, there requires a three-prong approach considering locality, the external environment and growth. These undertaken together are likely to facilitate rural SME success.

Therefore while the locality and growth are key factors for success, this study posits that these have to be reviewed in tandem rather than singular business decisions. The ability to embed, relate and work within rural locations is equally as important as the desire for growth. In terms of rural SMEs, this affirms importance to a set of business considerations within the context of their geography and customer marketplace.

This is vital as SMEs are particularly affected by their geography, location and knowledge of their local communities. To grow without careful consideration of their marketplace demands and insufficient knowledge on the business direction of the firm would exacerbate conditions, potentially leading to demise. The results also do suggest an element of flexibility and perhaps openness to change if required to do so. A rigid and stubborn approach would not be beneficial.

Figure 29 Flow of inputs and outputs for rural SMEs



Interestingly overall findings here suggest a flow of input considerations to deliver suitable outcomes. It suggests that understanding locality and appropriate growth as the vital input resources that drive the firm forward. With these inputs, only then can the firm achieve suitable outcomes in the form of business longevity and financial success. Indeed these findings indicate an interesting spectrum of rural SME management, where the local market and desires for growth are interlinked and affect the potential for long-term firm success. Thus, this posits that a strong level of importance should be placed upon what resources go into the firm rather than solely what comes out of it.

6.6 Success as a product of financial planning

Inevitably any conversation on business management and success would entail some measurement and discussion on finances. The ability for a firm to generate income, break-even, sales or even a return on investment are all prevalent measures of firm success based on financial values. Udell (2015) discuss that while finances are only one element of success, the predominant approach in a large majority of studies still examines profitability, sales and funds as an indicator that a firm is performing well. Indeed as indicated by Zahra (1991), the investment potential is based upon financial performance measures and the ability of the firm to generate monetary returns. Indeed Dobbs and Hamilton (2007) contend that financial growth is a key measure of firm growth.

Similarly owing to the nature of SMEs, it is also unsurprising that the major sources of funding are from personal savings and funds from friends/family and co-funders. Often the closest contacts are the main sources of information and funding of

entrepreneurs (Leung *et al.*, 2008; Hussain *et al.*, 2006; Ivy, 1997; Binks and Ennew, 1997). Within the context of rural SMEs, this is still consistent.

There is also a gap in the potential sources of funding for rural firms. Indeed taking the lack of venture capitalist funding in tandem with the difficulties in innovating or trying new approaches to engage external agencies, there is a potential area of policy that is lacking. The potential for venture capitalist funding and the desire for more effective engagement with external agencies are strongly evident in rural SMEs, suggesting an area for further research exploration (see section 5.10). Similarly it suggests that within the current desire to engage small business ventures as part of government initiatives, there is a shortcoming in the context of rurality. Funding it seems is not arriving as extensively as it should.

In reviewing the contextual mix of sources of funding, personal sources (savings, friends, co-funders, mortgage on home) reflect 63% of all funding received by the rural SMEs surveyed for the purposes of this study. Government funding and bank loans only equate to 16%.

Examining the results based upon different financial focus revealed a complex range of considerations. Indeed the results suggested little of which financial elements delivered success. Measures such as sales growth and net profit required different considerations to firms focusing on business survival or reputation. The levels of importance placed on cash flow similarly did not offer great indicator of business success.

Taken in its entirety, the financial results based on rural SMEs indicates little consensus or indication of which priorities facilitates firm success. Instead the findings side with Hussain *et al.* (2006) and Jordan *et al.* (1998) research on how financial measures are a very specific and often a 'mixed-bag' in identifying and indicating success. There is without doubt a strong importance to be placed on funding and financial measures, but what the study has uncovered is that no particular approach equates to success. Rather the study has identified that a range of financial measures are vital dependent on the business direction and decisions to be made.

For firms that are making losses, there is a strong priority for cash flow, where firms making a profit were keen to expand their sales growth rate. These findings within the context of traditional business management and desires are self-explanatory, standardised and prevalent (BIS, 2015c).

As entrepreneurs often drive their business venture forward, the findings do suggest caution, where the incorrect focus and endeavour by the owner may lead to financial demise. For example, SMEs that indicated a desire to provide employment for family members placed less importance on profitability.

This is reflective of bivariate correlations in table 34, where a focus on business survival entails less priority placed upon reputation of the firm. Likewise focusing upon image and status of the firm can have a negative effect on employment for family members and employee job security.

Thus in the review of financial planning and approaches as key for business success, the results suggest an inverse relationship. It is not financial measures that enable business success, rather it's the priorities and direction for business success and sets importance on which financial metric. This indicates that financial planning is secondary to what the entrepreneur or the business desires to be successful. Different metrics and financial performance indicators are relevant based on upon these. If a firm were to seek profitability then a focus upon sales growth and less on cash flow would facilitate this. Similarly a desire to maintain employment for family members and for business survival would mean less on profits and more on breaking even and working with a financial loss.

This conclusion needs to be noted within the context of the study. Where financial planning may have an inverse relationship here, there is the potential that the causal nature suggested could differ in an alternate setting. Datta *et al.* (2010) for example warn of the need to understand contextual factors as moderating and altering the viability of findings. Indeed, where previous discourse has maintained that financial concerns should take precedence, this study suggests differently. This finding is still significant, but only strongly within the context and scope of this study.

6.7 SME failure within a rural context.

In the review factors that enable a rural SME to succeed it is also equally important to identify if there were any key elements that contribute to its failure. Storey (1994) and Hustad and Olsen (2014) discuss how failure is often an effect of mismanagement and a lack of understanding of the external forces that strongly affect a firm's operations. Hustad and Olsen (2014) add that in order for firms to succeed, they have to avoid failure, suggesting the importance of understanding what contributes to failure rather than solely reviewing the approaches to do well. Simmons *et al.* (2014) for example indicate the amount of learning and experience gained by an entrepreneur through the demise and failure of his business. The lessons learnt and opportunities missed are all vital for learning and growth, further facilitating future success. Shepherd *et al.* (2009) suggests that a large majority of entrepreneurs have tasted business failure and are often struggling to ensure that their venture survives and succeeds.

Examining the potential factors that contribute to rural SME failure reveals a strong linkage to firm size. As in section 5.9 on firm characteristics, the results on failure suggest that micro firms are worse placed to succeed. In the majority of post-hoc tests on failure, micro firms seem the more affected by a range of forces contributing to failure. This ratifies some of the considerations discussed earlier as micro firms can lack sufficient critical mass to weather negative environmental forces. For example, micro firms indicate that they are strongly affected by a lack of leadership, growth, being unable to embed themselves within the locality and being unable to realise a capital gain. On this evidence, the size and in essence mass of micro firms places them at a significant disadvantage within a rural location. Interestingly, this assertion is somewhat accepted by owners of micro firms who are indifferent to the statement if business performance was lower than expectations as a sign of failure. This indicates to some degree an expectation of the part of micro firms of the inherent difficulties they face with operating within a rural context.

Small and medium firms on the other hand seem closely clustered in their opinions and priorities to navigate away from business failure and instead towards business success. Nonetheless akin to the findings in section 5.9.1, small firms seem the most likely to succeed. When asked if being based in a rural location affected success,

statistical significant differences in mean scores were identified between small firms against micro and medium businesses. As such, it could be suggested that the optimum size of rural firms to lie between 10 and 49 employees.

Interestingly apart from an association with size and failure the results do not indicate any specific elements to contribute strongly to failure. Instead the findings of the study signposts areas of focus to facilitate a prosperous business endeavour. Similarly within the context of failure, it indicates that the best approach to avoid firm demise is to focus upon ensuring success. There exists a continuum in the approaches and desires of rural SMEs and how ineffectiveness is more likely to lead to failure.

6.8 Limitations

It is important to note a number of limitations within this study. While the FAME database was consulted to provide a wide ranging and accurate dataset by which to draw a sample for the purposes of this study, it would have been worthwhile reviewing data from Companies House and other government statistical agencies for cross-checking. Given the availability of data and the inherent difficulties in establishing a consistent and standardised dataset across the UK, FAME provided the most uniform of approaches. Similarly its ability to categorise companies via NUTS classifications provided a very useful and important layer of additional information to ensure that rural regions and the SMEs that operate within this geography was selected. Thus while other sources would have been beneficial the usage of FAME provided, on balance, the most substantiated approach forward.

Moreover, while the selection of the North West of England as a dominantly rural region of the country provides extensive datasets, it is important to note that generalisability nationally must be taken with caveats in place. There is suggestion that the context of rural England is applicable to the country as a whole, but this is an area that would benefit from future research to create stronger verification of results. As suggested by Pateman (2011), while rurality is a defined concept, regional differences can exist and affect the overall generalisability of the findings of the study. Indeed the notion of ‘two countrysides’ is potentially possible. Kalantaridis

and Bika (2011) in their own study were keen to highlight the difference that the North West region has against other parts of England, suggesting care is required for generalisability. Their results mirror previous work by North and Smallbone (2000), where the authors suggest that regions reflect their own population structures and economic activities, indicating variations.

It is important to note that results are based on the perceptions and opinions of entrepreneurs and owner-managers. While the responses are gathered from a representative sample of the population, it is vital that the findings are viewed with this in consideration and within the context of the North West of England. This study has been exploratory in nature and has collected perceptual data from respondents well versed in the field. While these are statistically significant and robust, there is a need for future research to further 'confirm' these findings and examine its potential generalisability to the whole of England.

It would have been useful to undertake additional qualitative data collection methods to delve deeper and enhance upon some of the findings of the quantitative questionnaire. This would add another level of information and understanding that could better facilitate the incorporation of conclusions into real world practice. Given the exploratory scope of the study, the findings here provide an initial overview and understanding of the forces affecting rural SMEs and their drive towards success. There is an avenue for future research where further studies examining the key findings of this study can be contextually reviewed against the views of small business entrepreneurs within a rural context.

More research could have been undertaken to examine differences that exist as a product of sector/industry choice and the length of time the firm has been in business. Unfortunately the response rate for the study did not provide sufficient statistically significant and robust data to undertake tests related to sector or industry. There may exist different operational considerations and business endeavours as a product of this. For example firms within the manufacturing industry may take longer to attain critical mass and similarly would have a long-term desire for survival to repay capital investment. Contrastingly this would differ for small retail business where turnover would be vital. Thus, while this is a limitation of the study it does posit further avenues for future research. The diversity of business type and focus

alongside examining in detail industry factors could uncover further complexities and dynamics with the management of SMEs within a rural location.

6.9 Avenues for future research

In consideration of the limitations of this study and the key findings of the research, there are a number of areas that would benefit from further study. As suggested in the limitations, there is the potential to undertake further qualitative studies with entrepreneurs within SMEs in a rural location. The ability to discuss and understand deeper the different contextually and nuanced underpinnings behind the findings of the study would be beneficial in ensuring enhanced applicability to rural firms.

Thus qualitative data collection in the form of interviews or focus groups would be beneficial in extending the findings of this study. Targeting both the entrepreneurs of firms to have a diverse mix of micro, small and medium businesses as well as perhaps reviewing the demands of customers may provide further useful insight. Hill and Wright (2001) and Audretsch *et al.* (2007) suggest an alternative focus upon qualitative methods in research into SMEs.

It would also be useful to conduct similar studies utilising a different dataset. The study focused strongly on the North West of England due to its large rural geography and the rural classifications that exist via NUTS on the FAME database. It would be interesting to identify if similar issues exist in other rural regions and the SMEs operating within them.

Likewise further examining the industry and sector differences could reveal further contextual information that would be useful and beneficial in supporting rural firms. This in tandem with the examination of regional differences could further strengthen the findings of this study.

6.10 Contribution to knowledge

In the examination of SMEs in a rural location, the study has tried to identify key factors or elements that contribute to business success. It has tried to evaluate this

from the point of view of entrepreneurs and owner-managers seeking to identify what factors facilitate success and which can contribute to failure. The study has sought to do this through uncovering the emergent and statistically significant issues across a representative sample of rural firms.

One of the major contributions is in the examination of firm size. SMEs are often viewed and clustered together as one homogenous grouping negating the complexities and structures that exist within the individual sizes of micro, small and medium. The study has uncovered that within a rural context this negation is similarly in effect, thus clustering incorrectly SMEs into one large grouping and omitting the differences in critical mass and management styles that exist in its diversity. Indeed when considering the importance that critical mass has, the study has identified that within a rural geography it is firms that are small in size rather than micro and medium that have the best chance of success. The findings in Section 5.9.1 alongside current discourse by Williams (2014) and Lee (2014) advocate that size can contribute to firm survival and success. In the examination of rural firms, it is the study's position that small firms have an appropriate balance in structure, size, networks and financial stability that places them at an optimum business position.

It is important to note that this does not mean micro and medium firms are more likely to fail but instead firms with between 10 and 49 employees have a greater propensity to maximise their success. Indeed in the review of sources of information, flexibility and adaptability to the external environment within a business that can survive in the long term as well as have financial stability is more likely with small SMEs in a rural location.

The results point towards how the characteristics of the firm can affect its ability to perform within a rural location.

This assertion is similarly reflected in the considerations of business failure. The results of the study indicate that small firms are less likely to fail and are able to operate more effectively. If anything, micro firms seem the most prone to suffer from changes in the external environment. This suggests that more support either in the form of government policies and other sources of funding be availed. Medium size firms have considerable size to deal with different factors affecting them, but lack the flexibility afforded by micro and small businesses.

Another key contribution is the position of the entrepreneur in managing successful businesses. The study posits that certain elements within the entrepreneur's background have an effect on the potential for running a successful rural business. More specifically familial background and with a previous experience of operating a business seem to provide useful credentials in enabling a rural SME to deliver its goals. Access to information and networks as part of the entrepreneur's background further facilitates the potential for a firm to survive and do well. Soriano and Castrogiovanni (2012) and Love and Roper (2015) have discussed the value that the entrepreneur brings to the firm, his or her acumen, drive and desire are often reflected in the goals of the business. The study reflects this argument and suggests other elements such as upbringing, experience and the dynamics of the family further contribute to business management. This is particularly clear from the rural SMEs surveyed during this study.

This indicates a potential avenue for deciding upon which businesses to fund. The background and ability of the entrepreneur should be viewed with equal importance to the business endeavour. The skills of the entrepreneur together with his or her background require equal consideration alongside reviewing the business proposal. In terms of contributing to current knowledge, the study posits that an overly strong focus solely upon the business endeavour is insufficient without careful consideration of the skills and experiences of the entrepreneur. In essence, there is a need to consider these in tandem. The likelihood of success is seemingly intertwined both with the business model and the entrepreneur.

It is also important to note that long-term survival of the business is less related to the ability of the entrepreneur. The findings indicate that while the entrepreneur drives and leads the organisational forward, there is a stage where the ability of the business owner has little effect on longevity of the firm. Therefore while the entrepreneur plays a key role in success of the firm, longevity of the business requires the entrepreneur to relinquish some authority and control to its benefit. Dobbs and Hamilton (2007) discuss the possibility that a reduction in entrepreneur motivation, desire and even ideas mean that firms require 'fresh approaches' in their operation. Over a longer period of time this effect is more pronounced, ratifying the findings of the study. Thus for long term business survival, entrepreneurs would

need to realise when the effectiveness of their overall skillset can limit the potential of their business.

This is particularly interesting as the results suggest that business start-up and success is linked to firm direction and the ability of the entrepreneur. Yet for long-term survival the entrepreneur should consider empowering or relinquishing some control. A notion similarly suggested in work by Gilman *et al.*, (2015) and Wyer and Mason (1999). Dunne and Hughes (1994) and Haleblan *et al.* (2012) argue the lifecycle of a company may provide an apt reasoning for such results – from inception to maturity to decline. Within the lifespan of a business there requires different consideration and from the results of this study varying approaches that ensures firm success and indeed long-term survival. The beginnings of the business venture are strongly supported by the entrepreneur and by the goals of the firm, where the later stages require a widening of expertise. In the study of rural SMEs, this provides unique signposting in reviewing the potential for a rural firm to become successful.

Another interesting contribution to current discourse is the ineffectiveness of financial values as an indicator of rural firm success. The results of the study are unable to clearly discern if a focus on certain financial values and financial planning would enable a business to do well. Instead the findings of the study indicate that finance is a product of business direction and desire. For example, firms which are keen to minimise losses and facilitate business survival focus more on cash flow, whereas a firm keen on profitability places priority on sales growth. Likewise a desire for firm longevity places precedence on different financial measures.

This provides an interesting proposition where sole focus upon financial metrics does not ensure a prominent position for business success. Indeed the results suggest business direction and focus should take priority which would then indicate consideration of appropriate financial metrics. This adds to current discourse (see chapter 2.8) on the importance that financial performance indicators have on revealing potential for business success. As displayed in Figure 30, this suggests that within the context of rural SMEs, financial measures are inconclusive as a measure of success. Instead, as discussed in table 62, financial measures are related to

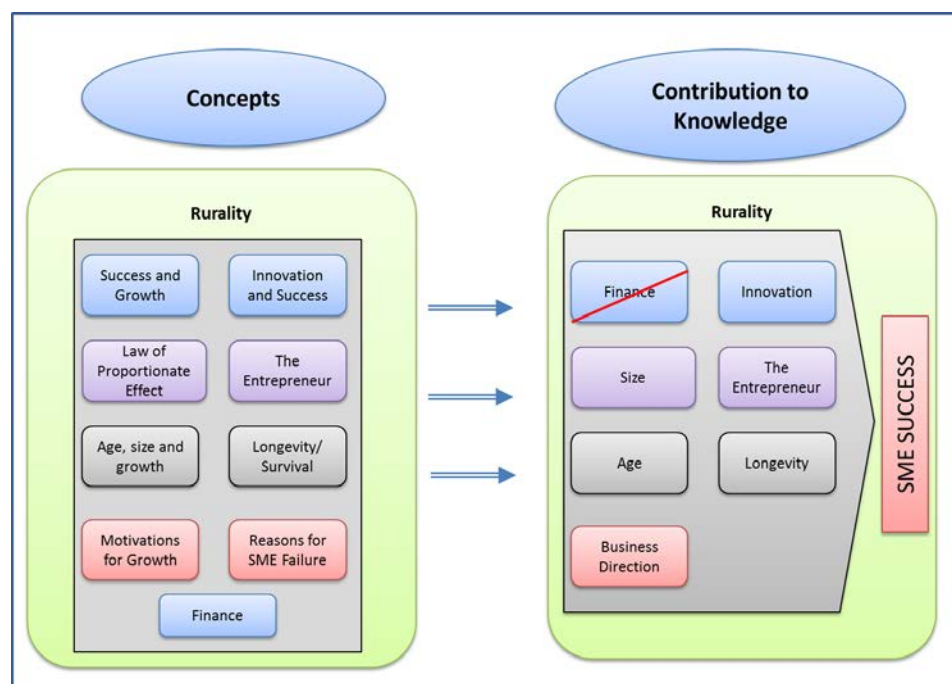
business direction. The focus on direction should precede financial measures or at least be considered in tandem.

It could be argued that longevity and financial success are an outcome of effective business management. In order to have an effective management, appropriate considerations need to be placed upon the desire for growth, the external environment and business direction. As such the growth and business goals are vital inputs into the firm with longevity and financial success achieved as an outcome.

In the review of rural SME failure, the results further ratify these findings. A clear business focus is a more likely indicator of rural firm success. In the larger context of the study, funding models, business development and growth models should place consideration on the desire of the business venture. Clear direction, appropriate business desires and an understanding of customer demand are more likely to enable a business to become successful.

These findings and the core concepts of the study alongside the different elements that contribute to firm success are reflected in Figure 30, offering novel insights into SMEs operating in a rural location.

Figure 30 Contribution to Knowledge



When focusing on the issue of rurality, on some levels SMEs seem to react according to current discourse on the subject area. Clarity in direction, a reasonable product/service mix and a desire to embed themselves within the locality are all important considerations for any firm. What is clear from this study of rural firms is the increased need to be embedded with the locality, creating a product/service mix that meets the demands of their local area. Simultaneously, rural SMEs entrepreneurs require strong understanding of their locality extending to previous experience (familial and information networks) to facilitate business success.

The results suggest that when considering success within a rural location, a stronger linkage to the locality is required. This strong link encompasses the entrepreneur, the direction of the business and an optimum critical mass that befits their location. Ultimately the research contributes to current discourse into SMEs in a rural location by highlighting:

- The importance the demographic background of the entrepreneur has on business success
- Small as an optimum firm size that facilitates business success
- Business direction as an important driver for financial considerations
- Clarity in direction as a catalyst to all other considerations
- A reduced need for control and management by the entrepreneur when seeking firm longevity.

7. Conclusion

This chapter provides a summary of the different issues discussed and uncovered for the purposes of this study. It begins by revisiting the important considerations and gaps in the literature that have led to the research questions and objectives. It discusses the rationale and context behind each of these and provides an overview of the prevalent issues within the literature.

The chapter then continues to discuss the methodological and methods considerations applied to ensure a robust research study where significant conclusions could be drawn. The different methodology options, effective

discounting of non-relevant and the eventual selection of appropriate approaches will also be summated here.

The final section of this chapter reviews the findings and discussion of the research, indicating significant findings on which factors affect rural SMEs success. It discusses the core conclusions and where contribution to the extant literature base and body of knowledge is made. The chapter ends by providing suggestions for future research and where potential advances could be made.

7.1 Rationale for the study.

Ilbery (2014) and Blanchard (2015) discuss the importance that SMEs have on the UK economy and how these firms are key drivers in engaging the local community and in job creation. Indeed FSB (2012) discuss the value that small firms have in providing benefits to communities through either the creation of job opportunities, wealth and/or potentially regeneration. Studies by Akgün *et al.* (2011) and Ilbery (2014) suggests that the current trend of entrepreneur endeavour is towards rural communities where successful businessmen and women are keen to return to their 'hometown'. Studies by Blanchard (2015) and ONS (2014) further ratify this suggestion where the largest growth of SMEs exists in locations that are deemed to be rural.

The study's aims and objectives were based on this growing trend and emphasis, seeking to review what key factors enables rural firms to become or remain successful. In consideration of the literature and accepted discourse that rural firms are increasing, the aims of the study are particularly poignant in providing valued information to entrepreneurs and public policy.

Thus, with this demand and limited research into rural SMEs, the study sought to contribute to current knowledge by identifying prevalent factors that can facilitate firm success and which elements can lead to failure.

In the examination and delivery of this research question, the study set itself a number of objectives to be achieved.

Similarly, the prevalent issues in the field of SMEs discuss the importance of the entrepreneur, firm growth, innovation and financial considerations, which can and do affect business success and survival. With this in mind, the study examined these issues and their effect on rural SMEs across a number of research themes.

- Research theme 1 – Rural SME success and survival is linked to the entrepreneur's background and ability.
- Research theme 2 – Longevity of an SME is an indicator of success
- Research theme 3 – Certain characteristics of SMEs in a rural location contribute to their success
 - Research theme 3a – SME size affects success
 - Research theme 3b – Innovation affects success
 - Research theme 3c – Business direction affects success
- Research theme 4 – Finances and financial planning are linked to SME success in a rural location
- Research theme 5 – SME failure in a rural location can be linked to a number of factors

7.2 Literature review

The chapter discussed current and core discourse within the area of small business success and examine the issues that exist within a rural context. It provides detailed discussion on different measures of success and the inherent difficulties in quantifying which permutation delivers real world results. Indeed the chapter discusses the contrasting and varying assumptions made by current discourse on which performance metrics appropriately ascertains SME success.

The chapter begins by discussing growth as a prominent measure of SME success where the desire of the firm is to expand its employee numbers, business market and alongside this profitability. Storey (1994) and Havnes and Senneseth (2001) for example examine the value that growth has on overall firm success and survival indicating the existence of a relationship between growth and performance of the firm. They indicate that through growth and expansion, an SME is more likely to improve its performance, citing sales turnover increases. This is potentially a product of increases in product/service mix and the widening of the business market. These approaches to growth seemingly yield strong positive results towards firm success.

While this is indeed an important element of firm success, approaches to growth, its measures and its overall effects need to be considered appropriately. Aernoudt (2003)

discusses the potential for firms to suffer from negative cash flows and low return on investments from the impact of continuously seeking growth. Likewise, Headd and Kirchhoff (2009) warn of the potential volatility when percentage growth of new firms is effectively skewed due to their inherent size.

The review of the literature continues to examine the effect and importance placed upon longevity and survival as an indicator of success. Current discourse suggests association with survival of a firm and performance on a number of metrics such as financial management, product/service mix and geographical considerations (Storey, 1994; Smallbone *et al.*, 1993; Roberts *et al.*, 2006; Lumpkin and Dess, 2013; Camacho-Miñano *et al.*, 2015). Similarly business longevity exists as a product of firm survival in the long term.

An approach to ensure longevity and long-term survival of the business is through innovation. There is extensive literature with the management of small businesses on the varying approaches firms can innovate. These include simple methods of enhancing and widening the product/service mix or more technical measures of improving efficiency and cost-effectiveness. While literature in the area of innovation is extensive, which approaches enable success and long-term business survival is less clear. The range of methods to innovate provides extensive food for thought, although appropriate application, mix of approaches and which should be prioritised is lacking consensus within current discourse.

The examination of current literature further expands upon the role the entrepreneur plays in the overall success of the firm highlighting their prominence in decision-making and business acumen as a key driver of the firm.

In order to provide a more holistic interpretation of success, the chapter also discusses the different factors that contribute to firm failure. A lack of direction and clarity of business purpose, poor leadership, and inability to deliver to market demands, are all factors that affect the ability of an SME to survive and excel. Nonetheless it is also important to note that business closure and failure are different definitions. Closure does not equate to business failure as, for example, often firms are sold when market considerations are appropriate.

The chapter ends by providing a detailed overview of rurality and its prominence as part of the focus of the study. It details different classifications of rurality within England and highlights the importance that rural SMEs and business play within the economy.

7.3 Methodology

The chapter discusses existing methodological approaches to undertaking research highlighting differences in ontological and epistemological positions. Describing these in detail, the chapter continues to examine knowledge and reality and considers which approaches best fits the needs and desires of the research.

The chapter then continues to examine the prevalent research paradigms and philosophical underpinnings to frame both the overall scope of the study and the thought process undertaken in the methods design. Utilising a positivist paradigm, which seeks to test and provide quantifiable results, the study employs a deductive methodological approach. In view and consideration of the aims and objectives of the study, interpretivism and inductive paradigms were discounted.

Providing a detailed discussion and critique between qualitative and quantitative methods, the chapter examines the different data collection approaches while considering the needs of the study. Qualitative methods traditionally favour more inductive and interpretivist notions in a bid to examine and understand in detail the phenomenon taking place. Quantitative methods, on the other hand, are more concerned with hypothesis testing and numerical data. The approach lends itself more closely with deductive and positivist reasoning.

In the selection of quantitative methods, the chapter continues to explore the different data collection approaches and the rationale behind the selection of structured questionnaires. The use of quantitative methods provided the best approach to collect robust and reliable data from a reflective sample group. The questionnaire was designed and structured utilising the key themes and issues as uncovered by the literature review. Furthermore, the included demographic questions were based upon the key characteristics of entrepreneurs, their educational profile and family background as highlighted by previous discourse. Failure was examined

last in the questionnaire to ensure that focus was not subconsciously skewed towards negativity.

In order to ensure robust data collection and subsequently strong conclusions to be drawn, appropriate sampling considerations were undertaken. The chapter then examined the usage of probability sampling methods and effective criteria utilised to filter and exclude non-related respondents. Through the use of the EU definition of SMEs and the usage of NUTS classifications to identify rural regions of the United Kingdom and an appropriate sample group, the study ensured that results were reflective of the population as a whole. Based upon the sampling considerations made here, distribution of the questionnaires via both electronic and hardcopy versions were then undertaken.

7.4 Findings & Discussion.

The findings chapter begins by providing an overview of the descriptive results of the study. It highlights the useable response rates and the internal reliability of the data collected. The response rates and demographic profiles broadly reflect the population. The chapter further provides an overview of the dataset and discusses some of the key nominal variables related to the background of the entrepreneur, business profitability and direction of the firm.

From descriptive findings, the discussion chapter continues to expand upon the results of statistical testing to provide an overview of the different factors that contribute to SME success in a rural location. The chapter is mainly structured is structured against the research themes to test the viability of each within the focus of this study. The key findings of each are examined below:

7.5 Key findings

7.6 The ability of the entrepreneur.

The findings of the study suggest that there is a strong linkage for business success to the skills and ability of the entrepreneur. This concurs with many of the studies

(see Soriano and Castrogiovanni, 2012, Millan *et al.*'s, 2014, Deakins and Freel, 2009; Love and Roper, 2015; Koryak *et al.*, 2015) within current literature that highlights the importance of the entrepreneur and entrepreneurial skills in driving the business forward and ensuring success. Indeed Krake (2005) goes as far as to posit that many small businesses are personification of the entrepreneur, mirroring his or her traits and desires.

The results similarly suggest that the background of the entrepreneur is vital if a firm is to succeed in a rural location.

The study posits that the family background of the entrepreneur and if he or she is from the local area of the firm, provides an additional advantage in managing the business. The findings indicate a stronger propensity to deal with the different market forces as well as having an extensive network of contacts that would help weather any negative issues. In HOMALs and t-tests, the results not only indicated different methods of approaching problems and business management as a product of the entrepreneur's background but that the differences in methods have some linkage to success.

More importantly and dominant within the results is the effect that family background has on firm success. The results indicate that entrepreneurs' whose parents had previously owned a business were more likely to return better financial results and prioritization of business endeavours.

On the whole, the findings also suggest entrepreneur ability is less effective in the longer term. This indicates that in the lifecycle of a firm, the entrepreneur plays an important role in driving the business forward in its infancy. Yet in the longer term, this is less effective and could potentially hinder. Storey (1994: p92) contend that this phenomenon affects a large number of businesses as emotional attrition, loss of motivation and even the disappearance of creativity and innovation could set in over time – his notion of “if it were ever so”. Indeed this notion is supported by the findings of the study, where long-term survival of the firm has less to do with entrepreneurial skills but rather through a mix of balancing the books, profitability and business growth. This is particularly interesting as it signposts some clear considerations to be made by the firm for long-term survival. It also suggests that the entrepreneur would need to relinquish control at some time during the lifetime of the

business to ensure that survival of the firm is maintained. Negative bivariate correlation between business survival and independent ownership (-0.253) (see table 34) further supports this conclusion.

It is important to note that while this is vital for long-term success, the scope of the study did not include an examination of when less control by the entrepreneur would ensure effectiveness. It is likely that this will depend on the lifecycle of the firm and if the business is in its early nurture stages or in later maturity. Thus, while the study suggests a need for the entrepreneur to reduce his or her control over the firm, when this happens is still effectively dependant on the situation.

Therefore in the management of SMEs in a rural location, the entrepreneur is an important individual in the overall direction and success of the firm. Nonetheless, it is also the entrepreneur's ability to be able to identify when his or her activities and presence in the firm can restrict its potential for success.

7.7 Business Direction and Financial Considerations.

The importance of business direction and clarity was also dominant within the findings of the study. Bivariate correlation and factor analysis results for example indicate the value that clear direction has for the firm. Indeed, in the review of other variables such as financial planning as a factor for success, it is instead business direction that should take precedence. The desire for growth and/or the desire for survival require consideration of different elements within business management. If the firm was setup to provide employment to family members or to maintain the lifestyle of the entrepreneur, there requires consideration of different sources of information, different financial measures of success and different priorities to be made on decision making.

Results from bivariate analysis for example indicate a negative relationship between business reputation and survival. These are didactically different and thus if rural firms seek both for their business there is a strong likelihood of failure. With this also comes different considerations in financial planning and approaches. If firms seek long-term survival, priority has to be placed on ensure suitable cash flows

within the business. Similarly if reputation and employment for family members is of prime value then less importance should be placed upon profitability.

The findings of the study also indicate that financial planning should be considered once the direction of the business is clear. It suggests that financial planning should take less prevalence and instead financial variables should be considered within the context of business direction. The review of financial metrics is only important when considered against the desire of the business.

This provides interesting notions for small business entrepreneurs as well as funders of such firms. A review of financial performance is no longer one dimensional but requires consideration of two facets – finance against business direction. For entrepreneurs it suggests there is less of a worry on profitability if that is indeed the direction that the business is intending to take. Similarly if profitability is key then sales figures should take prominence.

For funders, the findings argue that the stability and performance of financial metrics of small firms in rural locations is less an indicator of propensity to success. Rather financial measures provide limited purview to enable a review of the potential of the firm. This could suggest that funders of small firms consider what the desires of the business are and that financial measures are reviewed over a period of time to provide a reflection of potential rather than cross-sectional overviews. Cowling (2010) and Burns (2010) indicate that this is a valued approach to financial appraisal and often provides a better indicator of business success, when the numbers are taken within the context of the firm.

Ultimately, for the purposes of this research, the results suggest that priorities placed on financial metrics are insufficient in enabling a business to become successful. Instead business direction should take precedence, and from there financial considerations can facilitate that desire.

7.8 Innovation

Goffin and Mitchell (2010) and Bridge *et al.* (2003) contend that innovation is important for business survival and success. Without some element of creativity, change and innovation firms can suffer from the negative forces within the external

environment. Freeman and Soete (1997), for example, suggest that not to innovate is to die.

While harsh is Freeman and Soete's (1997) account, the prevalent result from the respondents of the survey is that innovation is important and vital for firm success. Indeed from HOMALS analysis it is clear that not only is a wide range of innovative approaches utilised but that some form of innovation does improve the performance of the firm. Rural firms seemingly employ a wide ranging number of innovative approaches. Interestingly, as with business direction above, it is vital that innovation is undertaken correctly. The results indicate that firms are not far from failure or a reduction in performance if innovation is undesired or uncontrolled. Thus, as above, while innovation is important and does affect performance, extensive and unconsidered use can bring about demise.

Within the body of current literature, the results of the study ratify many of the considerations such as need and desire to be creative and innovative. The results posit that similar desires to innovate exist in rural SMEs. Areas where improvements could be made would be in engaging external agencies. This is quite a clear avenue where future enhancements and endeavours could be made to extend its use in rural SMEs.

The results on innovation do not provide a clear differentiation of approaches against the size of the firm. Therefore neither micro, small or medium firms lose or overly benefit from undertaking some form of innovation.

The preliminary findings within this paper suggest that more structured and tangible forms of innovation seem to cluster and dominate in the SMEs researched. There is, seemingly, less desire and certainty in changing and engaging organisational culture and external agencies. Instead, the results suggest that products, systems, marketing and methods of production are prevalent innovative approaches. Approaches similarly espoused by current and previous discourse.

Oke *et al.* (2007) mention that not all businesses would be willing to undertake radical step changes within their business operations but would be rather more open to the notion of incremental alterations. This is potentially true as the preliminary

findings of study suggest that innovation or innovation through different approaches is applied by firms.

Levy and Powell (1998) and Ates *et al.* (2013) discuss that firms that innovate can be classified into two profiles – the reactive or proactive. Thus, businesses can ‘choose’ to innovate based upon changing external conditions or be proactive and alter their practices based on forecasts and predictions. Gray *et al.* (2012) reinforce the importance of firm ‘flexibility’ instead, whereby businesses that are either reactive or proactive will be able to adapt quickly to the marketplace and competition.

Porter (1990: p45) is keen to emphasise that innovation provides firms with a valuable opportunity to “create competitive advantage by perceiving or discovering new and better ways of competing in an industry and bringing them to market.”

Nonetheless Freeman’s (1994) dictum is that firms choosing not to innovate are making an unwise choice, positing that firms that innovate are the fastest growing. Westhead *et al.* (2004) reiterate this and indicate that firms that are resistant to change are denying themselves the opportunity to develop and refine technologies, to innovate new products and/or services and ultimately limiting their awareness of new market opportunities.

7.9 Longevity

In the examination of longevity as an important factor that contributes to firm success, the results are suggestive of its positive value. Rural firms should place a certain level of priority on ensuring the long-term survival of the business. Yet the results indicate that longevity should be factored with other elements of business operation and direction. For example, the majority of findings in Section 5.5 indicate that longevity is not often a stand-alone priority. Instead, the desire for longevity is often related with financial performance and business growth. The mean scores reflect this where clusters of responses exist between the three business considerations.

Similarly it is important to note that all of the statistically significant findings, business longevity is the only factor that is consistently highlighted. Thus, while

there are different permutations between factoring financial performance and growth along with business longevity, the notion of longevity is constant. The results suggest that rural SMEs should place emphasis on longevity and business survival regardless of other considerations of the firm. The need to have a clear direction, appropriate funding, good business acumen and valued sources of information are all vital considerations for long-term business survival. Linking these considerations with finance and growth differ according to individual desires but the primary focus should be placed upon longevity.

Interestingly and as mentioned above, the long-term survival of the firm is less consistently linked to the ability of the entrepreneur. Where finance and growth is valued, results on the long-term survival of the firm are less statistically associated to the entrepreneur. Thus, while the entrepreneur has an important role in facilitating success, over the longer term the results suggest less dominance and value placed on the owner's ability.

There are instances where the entrepreneur is still important. The results indicate these are in the areas of sources of information and maintaining a clear strategy and flexibility of the business. Other results indicate how the educational background of the entrepreneur is also significant. These posit that on some level the entrepreneur is still vital in firm longevity, but less dominant in its core activities and instead facilitating on the periphery. The ability to still attain good information as well as setting up the firm to be flexible and have a clear direction are still important values that emanate from the entrepreneur. The actual operation and business activities need less involvement by the entrepreneur. The educational background further suggests that an entrepreneur needs to be sufficient knowledgeable to perhaps know when his or her role should take a diminishing stance.

7.10 Failure

The results on failure provide a picture of a relatively fine balance required in the management of a rural SME. Firms who recorded profitability or breaking-even were less likely to place strong value on factors that led to success. Firms that recorded a loss placed strongly emphasis on failure emanating from similar variables. It could

be suggested that within the context of failure, there is little to differentiate what contributes to firm demise. Rather, from the results of the study, failure to engage well with the different variables that enables SME success, leads to firm demise.

When viewing success from the point of view of profitability, firms that have had growth, good leadership and embedded themselves within the local community have inevitably done well. The contrast of mean scores where a loss was made indicates that a lack of growth and bad leadership have contributed to firm closure.

On balance the results suggest that the same factors can facilitate business success can also signpost valuable considerations to prevent demise. As such, the study cannot conclude which factors leads to business failure, but rather than the key factors of business success, undertaken incorrectly would by its nature affect the propensity for the firm to do well. The inability to become successful is what creates failure.

7.11 Size as factor

The most interesting finding is in the examination of SME size. Analysis reveals that firm size does affect its potential to become successful. Throughout the different statistical results when measuring performance and business management approaches, the issue of size seems to dominate contrasting results. Blackburn (2012) contends that SMEs are overly viewed as one homogenous grouping where the complexities and dynamics of micro, small and medium firms are not assessed adequately. This notion is evident within the results of study where micro firms are seemingly at a disadvantage when viewed from a rural context. Their size affects their potential for success owing to a lack of critical mass and resources to help contend with external forces. In the review of financial performance and indeed sources of information, micro rural firms seem to lack direction and often utilise more techniques to ensure business success than necessary.

The results on rural firm failure are eventually representative of the position on SME size. Micro firms seem to be more strongly affected by the different negative effects of the external environment and business performance. For example, a lack of leadership and lack of growth could more acutely lead to failure for micro firms. The

varying mix of approaches, contrastingly business directions and the lack of resources have an adverse effect on business operations. The results of the study indicate that micro firms are in a negative position.

Similarly, medium firms were highlighted to have problems with their business operations. Williams (2014) suggests that larger firms are commonly unable to alter direction and be flexible to changes in the external environment and market forces. While the research accepts that the critical mass of medium firm is sufficiently substantial, its lack of flexibility creates other disadvantages. Likewise, the desired resources for medium firms are inherently more demanding and complex given the large workforce of between 50 and 249 employees.

Thus, the results of the study posit that small firms are the most likely to success within a rural context. It is important to note that the results do not suggest that micro and medium firms will fail but rather that small firms have an appropriate balance of mass and flexibility that seemingly, in a rural context, provides more propensity for success. The ability for the small firm managed more closely by entrepreneur allows his or her experiences and skills to be more effectively transferred to the business. Likewise flexibility to change business direction and with it consider different financial metrics places small firms in a highly beneficial position.

Statistical results further indicate the more streamlined and valued approach where information is sought and utilised by small firms. Small firms are not only more selective of their sources of information but are more certain on their business endeavours. In the majority of results small firms display strongly clarity in responses with mean scores and statistical outcomes that are more consistent.

Ultimately, SME size seems to be a factor for consideration in the management of rural SMEs, where small has the most appropriate balance of approaches and critical mass. It is also important to note that this is within the context of the other elements mentioned above.

7.12 Limitations of study and avenues for future research

The study has tried to restrict as best as possible the limitations that could affect the overall robustness of the results of the research.

Usage of the FAME database has provided an all-encompassing opportunity to identify a representative sample group from robust population data. Not often is a study afforded the opportunity to undertake probability sampling on an entire region or to draw respondents from an accurate sampling frame. The usage of the FAME dataset and its ability to profile potential respondents to county, town and even postcode level has facilitated the collection of robust data. It is for these reasons that the FAME database was selected. Nonetheless with every instrument utilised, there are inherent limitations. It would have been worthwhile examining and cross-checking the selected SMEs against other databases. Lee *et al.* (2012) and Sheehan (2013) for example utilised data from Dun and Bradstreet as a means to identify a sampling frame. Carter and Mwaura (2014) utilised datasets from the SME Finance Monitor while Cowling *et al.* (2015) analyse data from the UK Department for Business, Innovation and Skills and Business Barometer surveys. Unfortunately this did not provide easily comparable data to include NUTS classifications, for the purposes of this study.

Thus, for future research it would be interesting to undertake similar studies on datasets where appropriate sampling could be conducted. This could further enforce some of the key findings of this study or may find differences. In any case, future research would be able to identify consistencies in the overarching conclusions of this study.

In the same vein, this study has reviewed rurality through the views of rural SMEs in the North West of England. Further studies exploring these considerations in the context of other regions in England would promote enhanced understanding of the complexities and desires for success of rural SMEs. Similarly, while there is the potential that the results of the research could reflect other rural regions in England, previous studies have shown that is not always true (Pateman, 2011; Department of Communities and Local Government, 2008). It is vital to reflect on the findings of this study with this in mind. The research themes tested and the conclusions drawn do reflect strongly the rural geography, but more specifically and applicably to the

North West of England. These notions are similarly shared by Kalantaridis and Bika (2011) and suggest that variations in regions are to be expected. Indeed North and Smallbone (2000) indicate that all regions within England are different in their own way and that there is no typical rural economy. Nonetheless, Kalantaridis and Bika (2011) infer some potential for generalisability but this requires further research and the examination of the applicability of the key conclusions to other rural regions. This also suggests an examination of the potential existence of major differences between rural regions.

Moreover, this study has also undertaken a highly structured and quantified approach to data collection and analysis. There is an opportunity for future research to expand on the findings of this study and examine contextual information through qualitative data collection. Potentially through the use of focus groups or interviews with entrepreneurs, further data could be collected to expand on the results of this study. This would also allow nuanced and another level of information to the conclusions drawn.

Similarly expansion of the studies to include other segmentation variables such as industry where the considerations of size vary differently would be interesting. Moreover as suggested by Datta *et al.*, (2010) the conclusions drawn by this thesis need to be considered within the lens of rurality and the limited context of its discussion. While it is true that the elements highlighted in Figure 30 reflect factors that affect success in rural SMEs, this is only within the context examined by this study. Thus, it is plausible that the variables that affect success identified by this study could have a different effect when placed against different contextualisation. It is important to note this caveat in interpretation, when studies often seek to find a single explanation that has the highest predictive power.

7.13 Contributions to knowledge

The study has uncovered size to be an important factor in the review of SME success in a rural location. The results indicate that small firms are more likely to succeed in a rural context as compared to other SMEs sizes. It is important to note that this does not mean that micro and medium sized firms will fail in a rural location, but rather

on the balance of probabilities small firms are adequately structured to facilitate success.

Their balance of critical mass, control and their inherent flexibility places them at a suitable positive position. This finding is particularly poignant as it verifies Blackburn's (2012: p3) position that SMEs are often viewed too homogenously, where instead there needs to be specific understanding of the "heterogeneity of SMEs". Similarly, this conclusion facilitates understanding of rural firms, suggesting that the complexity of geography and local markets should be considered against the complexities in SMEs.

This posits a unique perspective for rural firms where growth, financial position and indeed business structure would benefit through seeking to grow to a 'small' level. While some excellent past studies have broadly looked at success factors for rural firms and suggested a linkage with size (Dobbs and Hamilton, 2007); little has been undertaken to examine SMEs outside of a homogeneous, overly simplified grouping (Blackburn, 2012). The overall findings of the study indicate that micro firms are at a greater disadvantage than other SME sizes.

Another vital contribution is in the value the entrepreneur has on the potential success of the firm. The background of his or her family and the opportunity to learn from a previous family business takes precedent in the findings of this study. The experience and knowledge gained places entrepreneurs of this profile to deliver strong business outcomes.

The value of the entrepreneur should also be considered in the long-term survival of the firm and indeed in the findings of this study less is more. For long-term survival of the firm, the study suggests that the entrepreneur should reduce his or her influence on the firm, indicating that entrepreneurs can lose direction, motivation and potentially capacity to drive the business forward in the longer term. This pattern is in line with the work of (Gilman *et al.*, 2015; Wyer and Mason, 1999 and Scott and Bruce, 1987), on the challenges for entrepreneurs to continue their entrepreneurial activity as the firm expands; but the findings here offer greater insight into how the length of time that the original entrepreneur remains in control of the key decision-making in the company has an impact on how the firm success is optimised (or not). The study avers with these considerations and suggests that for

long-term survival of a rural SME, the entrepreneur needs to appropriately relinquish control for the benefit of the firm.

Likewise, there is considerable value placed upon innovation. The study is unable to identify which forms of innovation would enable a greater propensity to become successful but rather supports Freel's (2000) views that not to undertake any would lead to failure.

Unsurprisingly, the study also contributes to current knowledge by reaffirming the importance of a clear business direction. Current discourse (see Dobbs and Hamilton, 2007; Lumpkin and Dess, 2013) indicates the value that a clear business direction has on the structure, desire and planning considerations of the firm. The study has identified that similar considerations are to be placed upon SMEs in a rural location. Their localised geographical position and with it a sphere of influence on the marketplace and community, requires clarity in business direction to be paramount.

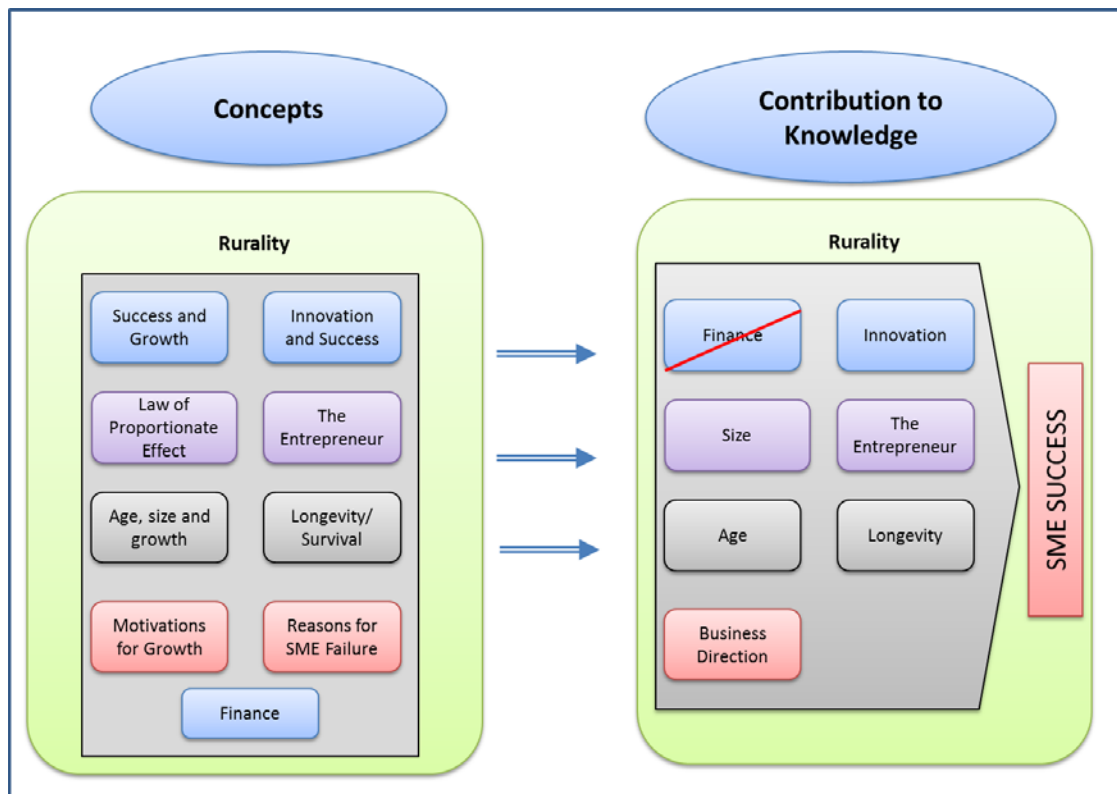
Within the context of business direction, this study also posits that financial considerations should play second fiddle. Where financial metrics do reflect the position and potential of the business, the study posits that these should be viewed with the direction of the business in mind. Different financial measures deliver different conclusions on the current position of the firm. What is important is that these measures are not viewed in singularity but rather as part of the desire of the business and its envisioned goals.

Ultimately within the context of success of rural SMEs, a number of key findings should be noted. These include the value that the familial background of the entrepreneur has, the importance of clarity in direction and longevity, the role and diminishing role of the entrepreneur and the value of firm size. The findings here not only expand on current discourse to provide a unique perspective into rural firms but have uncovered key factors that enable success within a rural context. Figure 31 provides a mapping of current concepts from discourse and the study's contribution to knowledge. It highlights the key measures that play a role in rural SME success.

In the diagram on Figure 31, the link between the core concepts of this study and the factors in rural SME success is shown. The elements in this diagram have been evaluated fully in the discussion section in chapter 6, where the relevance of the

factors such as age, innovation, the background of the entrepreneur and the business direction have been considered carefully. The importance of size, the potential relevance of longevity and background of the entrepreneur has been highlighted as critical factors in rural SME success. What is also worth noting from Figure 31 is the lack of link between financial management and rural SME success in this study. The findings in relation to finance have identified that financial issues *per se* are less significant in this in-depth study of rural SME development.

Figure 31 Contribution to Knowledge



For contributions to practice, it does signpost factors that small business entrepreneurs need to consider such as business direction, growth and financial metrics.

The issue of financial metrics has been considered earlier in the discussion section (See Section 6.6). In terms of business direction, the findings have demonstrated the value and importance that should be placed on having clarity of business aim and approach. The issue of direction and finance, as suggested by the findings of this study, needs to be considered in tandem where business direction should precede a focus upon financial metrics.

This challenges to some degree the findings within current discourse (see chapter 2.8) which noted a strong prioritisation of financial metrics as measures of success. By taking a more in-depth approach, this PhD study has taken this analysis further and indicates that financial metrics are only vital when considered in the context of the direction of the business.

This is relevant to SME entrepreneurs as it identifies the need for careful consideration of the direction they want for their business. In essence, clarity in this will enable them to better place appropriate priority on the financial measures of the firm.

When considering the growth potential of SMEs, the findings have drawn out that caution should be placed to ensure that firms grow appropriately. This suggests that while growth is vital, unplanned and unmonitored growth can be detrimental.

These areas for SME development are all actively supported in a recent government report on SME development by BIS (2013) where the notions identified by this study are reflected strongly as paramount enablers to business and economic success.

In terms of investors in small businesses, the findings signposts consideration of the profile of entrepreneurs as well as decision making on the resourcing of growth of micro firms. Similarly it posits that the value of financial indicators of propensity of success be viewed accordingly with the desires of the business.

What this raises for rural entrepreneurial firms in the wider UK economy is the lack of recognition and contextualisation of their desires. The measure of success based strongly on finance is perhaps overly simplified and does not examine other contextual issues that drive decision-making. This alongside the other significant issues identified in Figure 31 would provide a strong enabler towards rural SME success.

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9.0 Appendix

Appendix 1



UNIVERSITY OF
LIVERPOOL

Dear Sir/Madam,

There has been a steady growth of small and medium sized businesses within the UK, more specifically in rural locations. Research in the area has highlighted a number of factors that have enabled businesses to thrive and be successful as well as a number of common factors that can hinder its progress.

This study seeks to explore and identify the different elements and reasons that enable a SME to be successful within a rural context.

The following questionnaire is intended for the business owner/entrepreneur and should take approximately 15 minutes to complete. Responses to the questionnaire will inform the identification of different elements that contribute to SME behaviour in a rural and would be greatly appreciated.

Included in the pack is an informed consent form that needs to be completed and returned together with the completed questionnaire. Please feel free to contact me via email at Seamus.O'Brien@liverpool.ac.uk, if you have any questions. If you would like to receive a copy of the report for the questionnaire, please do not hesitate to contact me.

Many thanks for your time

Yours Sincerely,

Seamus O'Brien
Postgraduate Research Student
University of Liverpool



FORM OF CONSENT TO TAKE PART AS A SUBJECT IN A MAJOR PROCEDURE OR RESEARCH PROJECT

What makes a successful SME in a rural location.

I **consent** to be a subject of human research to be undertaken and **agree** to take part in the above named project/procedure, the details of which have been fully explained to me and described in writing.

1. I have read and have understood the information sheet for the above study. I have had the opportunity to consider the information, ask questions and have had these answered satisfactorily.
2. I understand that my participation is voluntary and that I am free to withdraw at any time without giving any reason, without my rights being affected.
3. Any information I provide will not be made public in any form that would reveal my identity to an outside party, ensuring anonymity.
4. I understand that, under the Data Protection Act, I can at any time ask for access to the information I provide and I can also request the destruction of that information if I wish.
5. I agree to take part in the above study.

Participant Name

Date

Signature

Contact Details

Seamus O'Brien

University of Liverpool

Email: Seamus.Obrien@liverpool.ac.uk

Tel: 0151 231 3831

Research Questionnaire

This questionnaire should be completed by the principal owner of the business.

Would you like to receive a copy of the summary report for this survey? Yes [] No []

Section 1 - The Business Owner/Entrepreneur

Please insert a tick in the boxes provided, where appropriate.

A. Personal Background

A1. What is your age?

A2. What is your gender? Male [] Female []

A3. Have either of your parents owned a business? Yes [] No []

A4. Are you from the local area around the firm? Yes [] No []

A5. Select your highest level of education.

Secondary Schooling [] Undergraduate First Degree []

Postgraduate Qualifications [] Professional/Technical Qualifications []

No Formal Education []

A6. Please select your job status before you started this business.

Employed [] Self-employed []

Self-employed with employees [] Retired []

Unemployed [] Student []

A7. Please state how many hours on average do you work per week?hours

A8. Please select which of the following statements about your business is true. (Please select one only)

I started this business [] I inherited this business []

I purchased/acquired a stake in the business [] Other []

A9. Considering your answer to the question above, how did you undertake this process of ownership:

By yourself/individually [] With others as investors? [] if so, how many?

Other approach []

A10. Please select the legal status of your business.

Sole Trader [] Partnership []

Private Limited Company [] Limited Liability Partnership []

A11. Is this business a family owned business? Yes [] No []

A12. Is this business a subsidiary of another business? Yes [] No []

A13. Do you intend to establish / purchase an additional business in the future? Yes [] No []

A14. Which best describes your motivation in undertaking this business?

To grow and develop the business through exploiting potential opportunities []

For personal financial reasons (financial security, wealth) []

Section 2 - Key performance elements

Please insert a tick in the boxes provided, where appropriate. Please select one answer choice unless otherwise indicated.

B1. Please state the number of employees (including yourself) that have worked for the business

	When you received your first order	Currently
B1. Full-time	_____	_____
B2. Part-time (less than 30 hours per week)	_____	_____
B3. Paid casual employment	_____	_____

B2. For the last financial year, has the business operated at: (please tick)

A loss	Breakeven	A profit
[]	[]	[]

B3. Please rank from 1 to 6 in order of importance the following performance elements (6 for very important, 1 for least important. Please ensure that ranks are not repeated)

Business survival	_____
Reputation and status of the business	_____
Employee security	_____
Independent ownership of the business	_____
Employment for family members	_____
Maintain / enhance my lifestyle	_____

B4. Please select the level of importance your business places on the following elements

	Very Unimportant	Unimportant	Neutral	Important	Very important
Sales amount	1	2	3	4	5
Sales growth rate	1	2	3	4	5
Cash flow	1	2	3	4	5
Return on shareholders' equity	1	2	3	4	5
Gross profit	1	2	3	4	5
Net profit	1	2	3	4	5
Business survival	1	2	3	4	5
Reputation of the business	1	2	3	4	5
Employee job security	1	2	3	4	5
Independent ownership of the business	1	2	3	4	5
Employment for family members	1	2	3	4	5
Maintain / enhance my lifestyle	1	2	3	4	5

B5. In terms of operating profit, how do you rate your business's performance compared to your competitors?

Worse	No Difference	Better
[]	[]	[]

B6. Is the majority of your business: (Please tick one only)

Local (within a 25 mile radius of the business)	[]	Europe	[]
Regional (within a 50 mile radius)	[]	World wide	[]
National	[]		

B7. What sources of income do you have? Please tick all that are applicable.

This business alone	[]
Part-time or irregular jobs outside this business	[]
Full-time job outside this business	[]
Income from other businesses that I have an equity stake in	[]

B8. In your view, what is the most important indicator of success?

Business longevity (the business continues to trade for the foreseeable future)	[]
Financial performance	[]
The ability of the entrepreneur (skills, traits, experience, foresight)	[]
Business Growth	[]

Section 3 - Financial Focus

Please insert a tick in the boxes provided, where appropriate.

C1. Please indicate the approximate proportion of initial capital/finance (in percentages) that came from the following sources.

	Percentage proportion
My personal savings	%
Funds drawn from other businesses	%
Funds from friends and family	%
Funds provided by cofounders / partners	%
Mortgage on home	%
Private investors	%
Loans from Bank	%
Grants from government agencies (UK / EU)	%
Venture capitalists	%
TOTAL	100%

C2. Please also select the level of difficulty in obtaining these funds.

	Very difficult	Difficult	Neither difficult nor easy	Easy	Very easy	N/A
Personal savings	1	2	3	4	5	
Funds drawn from other businesses	1	2	3	4	5	
Funds from friends and family	1	2	3	4	5	
Funds provided by cofounders / partners	1	2	3	4	5	
Mortgage on home	1	2	3	4	5	
Private investors	1	2	3	4	5	
Loans from bank	1	2	3	4	5	
Grants from government agencies (UK / EU)	1	2	3	4	5	
Venture capitalists	1	2	3	4	5	
TOTAL						

C3. Approximately how much capital investment did you initially put into the business? £

C4. Approximately how much initial capital came from other sources? £

Section 4 – Business Considerations

Please insert a tick in the boxes provided, where appropriate.

D1. Have you used any of the following sources of information? Please indicate how useful they were in your business opportunities.

	Not at all useful	Not useful	Neither not useful nor useful	Useful	Very useful	N/A
Suppliers	1	2	3	4	5	
Employees	1	2	3	4	5	
Customers and clients	1	2	3	4	5	
Other business owners	1	2	3	4	5	
Consultants	1	2	3	4	5	
Bankers / venture capitalists / business angels	1	2	3	4	5	
Personal friends	1	2	3	4	5	
Family	1	2	3	4	5	
Magazines / newspapers	1	2	3	4	5	
Trade publications	1	2	3	4	5	
Patent filings	1	2	3	4	5	
Technical literature	1	2	3	4	5	
National government sources	1	2	3	4	5	
Universities	1	2	3	4	5	
Local enterprise / development agency (e.g. Business Link / TEC / LEC)	1	2	3	4	5	
Other, please specify:	1	2	3	4	5	

D2. Thinking about your business operations have you:

	Yes	No
Developed a new product /service		
Enhanced the quality of an existing product/service		
Introduced new or modified methods of production/service		
Identified a new market		
Employed a new marketing strategy		
Developed new procedures		
Developed new systems		
Developed new structures		
Applied new organisational cultures to enhance innovative practices		
Utilised new approaches to managing personnel		
Utilised new methods of quality control		
Applied new approaches to engaging external agencies and organisations.		

D3. Please circle your level of agreement with the following statements

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	N/A
My business will achieve my future expectations for it	1	2	3	4	5	
Businesses like my own will similarly be able to succeed	1	2	3	4	5	
My business is changing rapidly	1	2	3	4	5	
The number of competitors will grow in the next 5 years	1	2	3	4	5	
Growth in employee numbers is important to business survival	1	2	3	4	5	
Profitability is key to business success	1	2	3	4	5	
Good financial stability is important	1	2	3	4	5	
The business owner/entrepreneur drives the business forward	1	2	3	4	5	
Expanding the firm's market share is vital	1	2	3	4	5	
Businesses which are able to engage and serve the local community well are more likely to survive	1	2	3	4	5	
Good initial capital investment is important	1	2	3	4	5	
A good product/service is vital for business success	1	2	3	4	5	

D3. Please circle your level of agreement with the following statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	N/A
Flexibility to adapt to external and internal forces is important	1	2	3	4	5	
Flexibility to adapt to internal forces is important	1	2	3	4	5	
A clear strategy/strategic intent enables business success	1	2	3	4	5	
Having a firm position in the marketplace is vital	1	2	3	4	5	
Understanding the locality is key	1	2	3	4	5	
The local demographic affects business focus	1	2	3	4	5	
Management structures in firms play a role towards success	1	2	3	4	5	
Financial cashflows need to be managed to enable business success	1	2	3	4	5	
The quality of products/services should be utmost	1	2	3	4	5	

D4. Business Size and Age

Please circle your level of agreement with the following statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	N/A
Employee loyalty is important for business success	1	2	3	4	5	
A key indicator of success is the age/longevity of a business	1	2	3	4	5	
A diverse range of products/services will enable a business to succeed	1	2	3	4	5	
Year on year growth is a clear indicator of business health	1	2	3	4	5	
The educational background of the entrepreneur/business owner plays a key role in business success	1	2	3	4	5	
Importance should be placed upon marketing practices	1	2	3	4	5	
A young business is less likely to succeed	1	2	3	4	5	
A large business is more likely to succeed	1	2	3	4	5	
Being innovative in business operations is vital to success	1	2	3	4	5	
It is important to consider competitors to the business	1	2	3	4	5	
An established business is more likely to succeed	1	2	3	4	5	
Managerial competence is a key element contributing to business success.	1	2	3	4	5	

Please indicate the level of agreement on the following statements.

D5. I closed/would close my business...	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	N/A
If the performance of the business was too low in relation to my expectations	1	2	3	4	5	
Due to Bankruptcy / liquidation / receivership	1	2	3	4	5	
To realise a capital gain	1	2	3	4	5	
If a better opportunity presented itself	1	2	3	4	5	

D6. In my opinion Businesses fail due to a...	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	N/A
Lack of leadership	1	2	3	4	5	
Insufficient financial planning	1	2	3	4	5	
External forces	1	2	3	4	5	
Lack of growth	1	2	3	4	5	
Being unable to embed themselves in the locality	1	2	3	4	5	
Being based in a rural location	1	2	3	4	5	

Please comment on any other issue that you think enables an SME to be successful

Please comment on any issues you think contributes to business failure
